

By: Raymond

H.B. No. 2729

A BILL TO BE ENTITLED

AN ACT

1
2 relating to the operation of video lottery games by licensed horse
3 and greyhound racetrack operators, to a defense for the operation
4 of video lottery by Indian tribes, to the authority of the Texas
5 Lottery Commission and the Texas Racing Commission, and to the
6 conduct of gambling in this state; providing penalties; authorizing
7 fees.

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

9 SECTION 1. The legislature finds and declares the
10 following:

11 (1) The horse industry and agriculture industry have
12 been vital components of this state's economy since the 19th
13 century.

14 (2) The horse industry is an important element of the
15 state's unique fabric, and it is imperative that the legislature
16 take steps to support this industry.

17 (3) Live racing greatly benefits the horse industry of
18 this state by providing critical financial and other support to
19 horse shows and events, breeding programs, and employment in
20 tourism and agricultural enterprises in this state.

21 (4) The operation of video lottery games at horse
22 racetracks in the neighboring states of Louisiana, New Mexico, and
23 Oklahoma provides racetracks in those states with an insurmountable
24 economic advantage over racetracks in this state, resulting in much

1 larger purse amounts in those states than in this state.

2 (5) The consequence of this economic disparity in
3 purse amounts has been the exodus of horses, breeders, and other
4 horse professionals to states with larger purse amounts, placing
5 the horse industry in this state at an overwhelming disadvantage
6 that threatens the very existence of a vital horse industry in this
7 state.

8 (6) Authorizing video lottery games at licensed horse
9 and greyhound racetracks in this state will:

10 (A) remedy this economic disparity by increasing
11 the purse amounts in this state and delivering a huge economic
12 stimulus to this state through increased infrastructure and
13 employment in and around licensed racetracks and throughout this
14 state;

15 (B) increase horse showing and breeding
16 programs;

17 (C) increase employment in tourism;

18 (D) support programs to foster horse and
19 greyhound breeding; and

20 (E) improve the living and working conditions of
21 personnel who work in the horse industry.

22 SECTION 2. Section 466.002, Government Code, is amended to
23 read as follows:

24 Sec. 466.002. DEFINITIONS. In this chapter:

25 (1) "Commission" means the Texas Lottery Commission.

26 (2) "Communication technology" means the methods used
27 and the components employed to facilitate the transmission of

1 information, including transmission and reception systems that
2 transmit information through wire, cable, radio, microwave, light,
3 optics, or computer data networks.

4 (3) "Dedicated account" means a separate fiduciary
5 financial account that is restricted under this chapter according
6 to:

7 (A) the source of the funds that may be deposited
8 into the account; or

9 (B) the enumerated purposes for which money from
10 the account may be spent.

11 (4) "Director" means a [the] director employed by the
12 executive director under Section 467.031 [of the division].

13 (5) "Disable," with respect to video lottery
14 terminals, means the process that causes a video lottery terminal
15 to cease functioning on issuance of a shutdown command from the
16 video lottery central system.

17 (6) "Distribute," with respect to video lottery
18 terminals, means the sale, lease, marketing, offer, or other
19 disposition of a video lottery terminal, an electronic computer
20 component of a video lottery terminal, the cabinet in which a video
21 lottery terminal is housed, video lottery equipment, or video
22 lottery game software intended for use or play in this state.

23 (7) [~~3~~] "Division" means the lottery division
24 established by the commission under Chapter 467.

25 (8) "Electronic storage medium," with respect to video
26 lottery, means the electronic medium on which the operation
27 software for a game playable on a video lottery terminal is stored

1 in the form of erasable programmable read only memory, data storage
2 devices typically considered alterable but through software or
3 hardware means have been rendered unalterable, compact disc-read
4 only memory, flash random access memory, or other technology medium
5 the commission approves for use in or with a video lottery terminal.

6 (9) [~~4~~] "Executive director" means the executive
7 director of the commission.

8 (10) "Horsemen's organization" has the meaning
9 assigned by Section 1.03, Texas Racing Act (Article 179e, Vernon's
10 Texas Civil Statutes).

11 (11) "House-banked game" means a game of chance in
12 which the house:

13 (A) plays as a participant;

14 (B) competes against all players, collects from
15 all losers, and pays all winners; and

16 (C) has an opportunity to win.

17 (12) "Indian lands" means land described by Section
18 47(f), Article III, Texas Constitution.

19 (13) "Institutional investor" means:

20 (A) a state or federal government pension plan;

21 or

22 (B) any of the following that meets the
23 requirements of a "qualified institutional buyer" as defined in 17
24 C.F.R. Section 230.144A and the rules adopted under that rule by the
25 United States Securities and Exchange Commission:

26 (i) a bank as defined by Section 3(a)(6),

27 Securities Exchange Act of 1934 (15 U.S.C. Section 78c), and the

1 rules adopted under that Act by the United States Securities and
2 Exchange Commission;

3 (ii) an insurance company as defined by
4 Section 2(a)(17), Investment Company Act of 1940 (15 U.S.C. Section
5 80a-2);

6 (iii) an investment company registered
7 under Section 8, Investment Company Act of 1940 (15 U.S.C. Section
8 80a-8);

9 (iv) an employee benefit plan or pension
10 fund subject to the Employee Retirement Income Security Act of 1974
11 (29 U.S.C. Section 1001 et seq.), excluding an employee benefit
12 plan or pension fund sponsored by a publicly traded corporation
13 registered with the United States Securities and Exchange
14 Commission;

15 (v) a group composed entirely of persons
16 specified by this paragraph; or

17 (vi) any other person the commission
18 recognizes as an institutional investor for reasons consistent with
19 the policies expressed in this chapter.

20 (14) [~~5~~] "Lottery" means the state lottery
21 established and operated in accordance with the Texas Constitution
22 under this chapter and includes the operation of a state-controlled
23 video lottery system [~~procedures operated by the state under this~~
24 ~~chapter through which prizes are awarded or distributed by chance~~
25 ~~among persons who have paid, or unconditionally agreed to pay, for a~~
26 ~~chance or other opportunity to receive a prize].~~

27 (15) [~~6~~] "Lottery game" means an activity conducted

1 in accordance with the Texas Constitution and this chapter that is
2 controlled by this state as part of the lottery and through which
3 prizes are awarded or distributed by chance to persons who have paid
4 or unconditionally agreed to pay, or who otherwise participate in a
5 game, for a chance or other opportunity to receive a prize [~~includes~~
6 ~~a lottery activity~~].

7 (16) [~~(7)~~] "Lottery operator" means a person selected
8 under Section 466.014(b) to operate a lottery game.

9 (17) "Manufacture," with respect to video lottery
10 terminals, means to design, assemble, fabricate, produce, program,
11 or make modifications to a video lottery terminal, an electronic
12 computer component of a video lottery terminal, the cabinet in
13 which a video lottery terminal is housed, video lottery equipment,
14 or video lottery game software intended for use or play in this
15 state.

16 (18) "Net terminal income" means the total amount of
17 money paid to play video lottery games less the value of all
18 credits, including any progressive prizes and bonuses, redeemed by
19 the players of the video lottery games at a video lottery terminal
20 establishment. The deductions from the total may not include
21 promotional prizes unrelated to video lottery game wagers.

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

26 (20) "Performance horse development fund" means an
27 account dedicated to certain non-racing horse activities in this

1 state into which a portion of net terminal income is deposited as
2 provided by Subchapter K.

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

7 (22) [~~8~~] "Player" means a person who contributes any
8 part of the consideration for a ticket or to play a video lottery
9 game under this chapter.

10 (23) "Racetrack" has the meaning assigned by Section
11 1.03, Texas Racing Act (Article 179e, Vernon's Texas Civil
12 Statutes).

13 (24) "Racing facilities agreement" means a written
14 agreement that:

15 (A) specifies the amount of money or the
16 percentage of revenue to be transferred by a racetrack and from the
17 applicable Texas canine development fund or Texas equine
18 development fund to the racing facilities capital improvement
19 account; and

20 (B) provides a plan for the use of the money
21 deposited in the account.

22 (25) [~~9~~] "Sales agent" or "sales agency" means a
23 person licensed under this chapter to sell tickets.

24 (26) "Slot machine" means a mechanical, electrical, or
25 other type of device, contrivance, or machine not connected to the
26 video lottery central system that plays or operates on insertion of
27 a coin, currency, token, or similar object or on payment of any

1 other consideration, and the play or operation of which, through
2 the skill of the operator, by chance, or both, may deliver to the
3 person playing or operating the machine, or entitle the person to
4 receive, cash, premiums, merchandise, tokens, or any other thing of
5 value, whether the payoff is made automatically from the machine or
6 in any other manner. The term does not include any equipment,
7 machine, technological aid, or other device used or authorized in
8 connection with the play of bingo under Chapter 2001, Occupations
9 Code, or authorized under other law.

10 (27) "State horse breed registry" has the meaning
11 assigned by Section 1.03, Texas Racing Act (Article 179e, Vernon's
12 Texas Civil Statutes). The term includes the organizations
13 identified in Section 9.02, Texas Racing Act (Article 179e,
14 Vernon's Texas Civil Statutes).

15 (28) "Substantial interest holder" means any of the
16 following that is not a bona fide lender, bank, or other authorized
17 or licensed lending institution that holds a mortgage or other lien
18 acquired in the ordinary course of business or a vendor of the
19 applicant or license holder that is not otherwise a substantial
20 business holder:

21 (A) a person who directly, indirectly, or
22 beneficially owns any interest in a privately owned corporation,
23 association, trust, partnership, limited partnership, joint
24 venture, subsidiary, or other entity, regardless of its form,
25 structure, or nature;

26 (B) a person who directly, indirectly, or
27 beneficially owns 10 percent or more of any publicly owned

1 corporation, association, trust, partnership, limited partnership,
2 joint venture, subsidiary, or other entity, regardless of its form,
3 structure, or nature;

4 (C) a person associated with an applicant or
5 license holder who the commission determines has the power or
6 authority to:

7 (i) control the activities of the applicant
8 or license holder; or

9 (ii) elect or select the executive
10 director, the managers, the partners, or a majority of the board of
11 directors of the applicant or license holder; and

12 (D) any key personnel of a video lottery retailer
13 or video lottery manager, including an executive director, officer,
14 director, manager, member, partner, limited partner, executive,
15 employee, or agent, who the commission determines has the power to
16 exercise significant influence over decisions concerning any part
17 of the applicant's or license holder's business operation.

18 (29) "Texas canine development fund" means, for a
19 greyhound racetrack that operates a video lottery terminal
20 establishment, the dedicated account in which a portion of the net
21 terminal income is deposited as provided by Subchapter K.

22 (30) "Texas equine development fund" means, for a
23 horse racetrack that operates a video lottery terminal
24 establishment, the dedicated account in which a portion of the net
25 terminal income is deposited as provided by Subchapter K.

26 (31) [~~10~~] "Ticket" means any tangible evidence
27 issued to provide participation in a lottery game authorized by

1 this chapter other than a video lottery game.

2 (32) "Video lottery central system" means the system
3 of procedures and facilities operated and controlled by the
4 commission that is designed to link together all video lottery
5 terminals operated in this state and allows the commission to
6 continuously monitor the activity of each video lottery terminal
7 and to disable any video lottery terminal in this state.

8 (33) "Video lottery central system provider" means a
9 person that, under a contract with the commission, provides the
10 video lottery central system.

11 (34) "Video lottery equipment" means:

12 (A) a video lottery terminal;

13 (B) equipment, a component, or a contrivance used
14 remotely or directly in connection with a video lottery terminal
15 to:

16 (i) affect the reporting of gross revenue
17 and other accounting information, including a device for weighing
18 and counting money;

19 (ii) provide accounting, player tracking,
20 bonuses, and in-house or wide-area prizes;

21 (iii) monitor video lottery terminal
22 operations; and

23 (iv) provide for the connection of video
24 lottery terminals to the video lottery central system; or

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

27 (35) "Video lottery game" means an

1 electromechanically or electronically simulated game displayed on
2 a video lottery terminal the outcome of which is determined solely
3 by chance based on a computer-generated random selection of winning
4 combinations of symbols or numbers other than typical roulette,
5 dice, or baccarat game themes associated with casino gambling,
6 except that game themes displaying symbols that appear to roll on
7 drums to simulate a classic casino slot machine or themes of other
8 card games and keno may be used. The term includes video lottery
9 games linked together between two or more video lottery terminals
10 in one or more video lottery terminal establishments to provide
11 progressive payments to winners of video lottery games.

12 (36) "Video lottery manager" means a person who is
13 licensed by the commission under this chapter to manage a video
14 lottery terminal establishment.

15 (37) "Video lottery retailer" means a racetrack or the
16 operator of the premises of a pari-mutuel license holder at which a
17 video lottery terminal establishment is located and that holds a
18 video lottery retailer license under Subchapter K.

19 (38) "Video lottery system" has the meaning assigned
20 to that term by Section 47a, Article III, Texas Constitution.

21 (39) "Video lottery terminal" means an interactive
22 electronic device that is capable of displaying video lottery
23 games.

24 (40) "Video lottery terminal establishment" means
25 premises at which the operation of video lottery terminals is
26 authorized by the commission under this chapter in accordance with
27 a license.

1 (41) "Video lottery terminal provider" means a person
2 in the business of manufacturing or distributing video lottery
3 terminals in this state.

4 (42) "Video lottery ticket" means the evidence issued
5 by a video lottery terminal to reflect a credit balance from the
6 play of a video lottery game.

7 SECTION 3. Section 466.003(b), Government Code, is amended
8 to read as follows:

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

17 SECTION 4. Section 466.004(a), Government Code, is amended
18 to read as follows:

- 19 (a) A political subdivision of this state may not impose:
- 20 (1) a tax on the sale of a ticket;
 - 21 (2) a tax on the payment of a prize under this chapter;
 - 22 ~~or~~
 - 23 (3) an ad valorem tax on tickets;
 - 24 (4) a tax, fee, or other assessment on consideration
25 paid to play a video lottery game; or
 - 26 (5) a tax or fee for attendance or admission to a video
27 lottery establishment or a racetrack at which a video lottery

1 establishment is located unless specifically authorized by
2 statute.

3 SECTION 5. Section 466.014, Government Code, is amended to
4 read as follows:

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

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

23 (c) The executive director may award a contract for lottery
24 supplies, equipment, or services, including a contract under
25 Subsection (b), pending the completion of any investigation and
26 licensing, registration, or other affirmative regulatory approval
27 authorized or required by this chapter. A contract awarded under

1 this subsection must include a provision permitting the executive
2 director to terminate the contract without penalty if the
3 investigation reveals that the person to whom the contract is
4 awarded would not be eligible for a sales agent license under
5 Section 466.155 or with regard to video lottery does not satisfy the
6 applicable requirements for licensing, registration, or other
7 affirmative regulatory approval under Subchapter K.

8 SECTION 6. Section 466.015(b), Government Code, is amended
9 to read as follows:

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

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

14 (2) apportionment of the total revenues from the sale
15 of tickets and from all other sources in the amounts provided by
16 this chapter;

17 (3) enforcement of prohibitions on the sale of tickets
18 to or by an individual younger than 18 years of age or the sale of a
19 video lottery game to or by an individual younger than 21 years of
20 age; ~~and~~

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

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

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

27 Sec. 466.017. AUDITS. (a) The commission [~~executive~~

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

20 (b) The records of a [Each] lottery operator, sales agent,
21 video lottery manager, video lottery retailer, video lottery
22 terminal provider, or video lottery central system provider
23 ~~[operator's and sales agent's records]~~ are subject to audit by the
24 commission and the state auditor. For the purpose of carrying out
25 this chapter, the executive director or state auditor may examine
26 all books, records, papers, or other objects that the executive
27 director or state auditor determines are necessary for conducting a

1 complete examination under this chapter and may also examine under
2 oath any officer, director, or employee of a lottery operator, ~~[or]~~
3 sales agent, video lottery manager, video lottery retailer, video
4 lottery terminal provider, or video lottery central system
5 provider. The executive director or state auditor may conduct an
6 examination at the principal office or any other office of the
7 person subject to the audit ~~[lottery operator or sales agent]~~ or may
8 require the person ~~[lottery operator or sales agent]~~ to produce the
9 records at the office of the commission or state auditor. If a
10 sales agent, video lottery manager, video lottery retailer, video
11 lottery terminal provider, or video lottery central system provider
12 refuses to permit an examination or to answer any question
13 authorized by this subsection, the executive director may summarily
14 suspend the license or certificate of registration of the sales
15 agent, video lottery manager, video lottery retailer, or video
16 lottery terminal provider under Section 466.160 or Subchapter K
17 until the examination is completed as required. Section 321.013(h)
18 does not apply to an audit of a lottery operator, ~~[or]~~ sales agent,
19 video lottery manager, video lottery retailer, video lottery
20 terminal provider, or video lottery central system provider.

21 (c) To protect the state's financial interest, the
22 commission shall adopt reporting, monitoring, and auditing
23 requirements for revenue generated by video lottery games that is
24 distributed to or used by an organization through an allocation
25 specified under Subchapter K.

26 (d) The commission may adopt the requirements for an
27 organization described by Subsection (c) only after consultation

1 with the organization. In adopting the requirements, the commission
2 shall give consideration to the concerns of the organization.

3 (e) An organization described by Subsection (c) shall
4 annually file with the commission a copy of an audit, conducted by
5 an independent certified public accountant, on the receipt and use
6 by the organization of the revenue generated by video lottery
7 games.

8 (f) The commission may review any records or books of an
9 organization submitting an audit to the commission as required
10 under Subsection (e) as the commission determines necessary to
11 confirm or further investigate the findings of the audit.

12 (g) The commission, after notice and a hearing in accordance
13 with Chapter 2001, may suspend or prohibit the transfer of money to
14 an organization under Subchapter K if:

15 (1) the commission determines the organization has
16 failed to comply with the requirements adopted under Subsection
17 (c); or

18 (2) following the audit required under Subsection (e),
19 the commission determines that material questions have been raised
20 on the use of the money by the organization.

21 SECTION 8. Section 466.018, Government Code, is amended to
22 read as follows:

23 Sec. 466.018. INVESTIGATIONS. The attorney general, the
24 district attorney for Travis County, or the district attorney,
25 criminal district attorney, or county attorney performing the
26 duties of district attorney for the county in which the violation or
27 alleged violation occurred may investigate a violation or alleged

1 violation of this chapter and of the penal laws of this state by the
2 commission or its employees, a sales agent, a lottery vendor, [~~or~~] a
3 lottery operator, a video lottery manager, a video lottery
4 retailer, a video lottery terminal provider, or a video lottery
5 central system provider.

6 SECTION 9. Sections 466.020(c), (d), and (e), Government
7 Code, are amended to read as follows:

8 (c) A security officer or investigator employed by the
9 department of security or a peace officer who is working in
10 conjunction with the commission or the Department of Public Safety
11 in the enforcement of this chapter may:

12 (1) [~~r~~] without a search warrant, [~~may~~] search and
13 seize a lottery vending machine, lottery computer terminal, video
14 lottery terminal, or other lottery or gaming equipment that is
15 located on premises for which a person holds a sales agent, video
16 lottery retailer, or video lottery manager license issued under
17 this chapter; or

18 (2) seize a lottery vending machine, lottery computer
19 terminal, video lottery terminal, or other lottery or gaming
20 equipment that is being used or is in the possession of any person
21 in violation of this chapter.

22 (d) The Department of Public Safety or any other state or
23 local law enforcement agency in this state, at the commission's
24 request and in accordance with an interagency agreement, shall
25 perform a full criminal background investigation of a prospective
26 deputy or investigator of the department of security. The
27 commission shall reimburse the agency [~~Department of Public Safety~~]

1 for the actual costs of an investigation.

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

6 (1) lottery personnel security;

7 (2) sales agent security;

8 (3) lottery operator and vendor security;

9 (4) security against ticket counterfeiting and
10 alteration and other means of fraudulent winning;

11 (5) security of lottery drawings;

12 (6) lottery computer, data communications, database,
13 and systems security;

14 (7) lottery premises and warehouse security;

15 (8) security of distribution of tickets;

16 (9) security of validation and payment procedures;

17 (10) security involving unclaimed prizes;

18 (11) security aspects of each lottery game;

19 (12) security against the deliberate placement of
20 winning tickets in lottery games that involve preprinted winning
21 tickets by persons involved in the production, storage,
22 transportation, or distribution of tickets; ~~and~~

23 (13) security of video lottery retailers, video
24 lottery managers, video lottery terminal providers, and video
25 lottery central system providers; and

26 (14) other security aspects of lottery operations,
27 including video lottery game operations.

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

4 (b) In addition to commission records excepted from
5 disclosure under Chapter 552, the following information is
6 confidential and is exempt from disclosure:

7 (1) security plans and procedures of the commission
8 designed to ensure the integrity and security of the operation of
9 the lottery;

10 (2) information of a nature that is designed to ensure
11 the integrity and security of the selection of winning tickets or
12 numbers in the lottery, other than information describing the
13 general procedures for selecting winning tickets or numbers; ~~and~~

14 (3) the street address and telephone number of a prize
15 winner, if the prize winner has not consented to the release of the
16 information; and

17 (4) information and data relating to all system
18 operations of video lottery games, including the operation of the
19 video lottery system, security related to video lottery games, and
20 commission plans and procedures intended to ensure the integrity
21 and security of the operation of video lottery games.

22 (c) Information that is confidential under Subsection
23 (b)(4) includes information and data furnished to the commission
24 under Subchapter K or that may be otherwise obtained by the
25 commission from any source, including information that:

26 (1) pertains to an applicant's criminal record,
27 antecedents, and background;

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

5 (3) is obtained by the commission from a video lottery
6 manager, video lottery retailer, video lottery terminal provider,
7 or video lottery central system provider; or

8 (4) is prepared or obtained by an agent or employee of
9 the commission relating to a license, certificate of registration,
10 or renewal application, a finding of suitability, or any other
11 affirmative regulatory approval required under Subchapter K.

12 (d) Information that qualifies as confidential under
13 Subsection (b)(4) may be disclosed wholly or partly only as
14 necessary to administer this chapter or under a court order. The
15 commission, subject to appropriate procedures, may disclose the
16 information and data to an authorized agent of a political
17 subdivision of this state, the United States, another state or a
18 political subdivision of another state, a tribal law enforcement
19 agency, or the government of a foreign country.

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

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

1 SECTION 11. Section 466.024, Government Code, is amended to
2 read as follows:

3 Sec. 466.024. PROHIBITED GAMES. (a) The executive
4 director, ~~[or]~~ a lottery operator, a video lottery manager, a video
5 lottery retailer, a video lottery terminal provider, or a video
6 lottery central system provider may not establish or operate a
7 lottery game in which the winner is chosen on the basis of the
8 outcome of a live sports event.

9 (b) The ~~[commission shall adopt rules prohibiting the]~~
10 operation of any game using a video lottery machine or other
11 gambling device that is not connected to the video lottery central
12 system and regulated by this state as required by Section 47a,
13 Article III, Texas Constitution, and this chapter is prohibited
14 ~~[machine]~~.

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

19 ~~[(2) "Video lottery machine" or "machine" means any~~
20 ~~electronic video game machine that, upon insertion of cash, is~~
21 ~~available to play or simulate the play of a video game, including~~
22 ~~video poker, keno, and blackjack, using a video display and~~
23 ~~microprocessors in which the player may receive free games or~~
24 ~~credits that can be redeemed for cash, coins, or tokens, or that~~
25 ~~directly dispenses cash, coins, or tokens.]~~

26 SECTION 12. Section 466.025, Government Code, is amended to
27 read as follows:

1 Sec. 466.025. REPORTS OF TICKETS SOLD, NET TERMINAL INCOME,
2 AND PRIZES AWARDED. For each lottery game, other than a video
3 lottery game, after the last date on which a prize may be claimed
4 under Section 466.408(d), the director shall prepare a report that
5 shows the total number of tickets sold and the number and amounts of
6 prizes awarded in the game. The report must be available for public
7 inspection. For video lottery games, the director shall prepare a
8 weekly report that shows net terminal income for the preceding
9 week.

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

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

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

18 (2) with regard to video lottery equipment:

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

21 (B) would be considered unsuitable to be a video
22 lottery terminal provider under Subchapter K.

23 SECTION 14. Section 466.151(b), Government Code, is amended
24 to read as follows:

25 (b) The executive director may establish a provisional
26 license or other classes of licenses necessary to regulate and
27 administer the quantity and type of lottery games provided at each

1 licensed location of a sales agent.

2 SECTION 15. Subchapter E, Chapter 466, Government Code, is
3 amended by adding Section 466.206 to read as follows:

4 Sec. 466.206. CRIMINAL HISTORY INVESTIGATION FOR VIDEO
5 LOTTERY. Except as otherwise provided by this section and Sections
6 466.020 and 466.201, a criminal history investigation of a video
7 lottery retailer, video lottery manager, video lottery terminal
8 provider, or video lottery central system provider is governed by
9 commission rules adopted under Subchapter K. As applicable, the
10 commission shall consider information obtained through a criminal
11 history investigation conducted under the Texas Racing Act (Article
12 179e, Vernon's Texas Civil Statutes).

13 SECTION 16. 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 17. 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 18. 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 or other law, a person
2 commits an offense if the person operates, uses, or possesses any
3 video lottery terminal that is not at all times connected to the
4 video lottery central system or that is used in any manner other
5 than to generate revenue for this state or for the payment by the
6 commission of administrative costs. An offense under this
7 subsection is a felony 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 or possess a video lottery
11 terminal as authorized by the commission, and the commission may
12 possess video lottery terminals for study and evaluation.

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

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

22 SECTION 20. The heading to Section 466.3051, Government
23 Code, is amended to read as follows:

24 Sec. 466.3051. SALE [~~OF TICKET~~] TO OR PURCHASE OF LOTTERY
25 TICKET BY PERSON YOUNGER THAN 18; PLAY OF VIDEO LOTTERY GAME BY
26 PERSON YOUNGER THAN 21 [~~YEARS OF AGE~~].

27 SECTION 21. Section 466.3051, Government Code, is amended

1 by adding Subsections (a-1) and (b-1) and amending Subsections (b)
2 through (f) to read as follows:

3 (a-1) A video lottery manager, a video lottery retailer, or
4 an employee of a video lottery manager or video lottery retailer
5 commits an offense if the person intentionally or knowingly allows
6 a person younger than 21 years of age to play a video lottery game.

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

9 (1) purchases a lottery ticket; or

10 (2) falsely represents the individual to be 18 years
11 of age or older by displaying evidence of age that is false or
12 fraudulent or misrepresents in any way the individual's age in
13 order to purchase a lottery ticket.

14 (b-1) An individual who is younger than 21 years of age
15 commits an offense if the individual:

16 (1) plays a video lottery game; or

17 (2) falsely represents the individual to be 21 years
18 of age or older by displaying evidence of age that is false or
19 fraudulent or misrepresents in any way the individual's age in
20 order to play a video lottery game.

21 (c) A person 18 years of age or older may purchase a lottery
22 ticket to give as a gift to another person, including an individual
23 younger than 18 years of age.

24 (d) It is a defense to the application of Subsection (b)
25 that the individual younger than 18 years of age is participating in
26 an inspection or investigation on behalf of the commission or other
27 appropriate governmental entity regarding compliance with this

1 section. It is a defense to the application of Subsection (b-1) that
2 the individual younger than 21 years of age is participating in an
3 inspection or investigation on behalf of the commission or other
4 appropriate governmental entity regarding compliance with this
5 section.

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

8 (f) An offense under Subsection (b) or (b-1) is punishable
9 by a fine not to exceed \$250.

10 SECTION 22. Section 466.306, Government Code, is amended to
11 read as follows:

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

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

20 SECTION 23. Section 466.309(a), Government Code, is amended
21 to read as follows:

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

27 SECTION 24. The heading to Section 466.317, Government

1 Code, is amended to read as follows:

2 Sec. 466.317. PROHIBITION AGAINST SALE OF CERTAIN LOTTERY
3 TICKETS OR OPERATION OF CERTAIN VIDEO LOTTERY SYSTEMS.

4 SECTION 25. Section 466.317, Government Code, is amended by
5 adding Subsection (a-1) and amending Subsection (c) to read as
6 follows:

7 (a-1) A person may not control or operate a video lottery
8 system in this state except as provided by this chapter or other
9 law.

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 26. 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, and all money credited to the
19 account from any other fund or source under law. Interest earned by
20 the state lottery account shall be deposited in the unobligated
21 portion of the general revenue fund.

22 SECTION 27. 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 28. 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 29. 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) The purpose and intent of this subchapter is to
10 carry out the intent of the voters as established by the approval of
11 Section 47a, Article III, Texas Constitution, to expand the
12 revenue-generating ability of the state lottery by authorizing this
13 state to operate a video lottery system consistent with public
14 policy strictly limiting the expansion of gambling in this state.

15 (2) Except as expressly authorized under other law,
16 the people of this state intend to allow only state-regulated video
17 lottery games to be conducted in this state and only in locations at
18 which pari-mutuel wagering is conducted at racetracks.

19 (3) The video lottery games operated at racetracks
20 under this subchapter are regulated by this state in a manner that
21 allows this state to continuously monitor all video lottery
22 terminals and to disable any video lottery terminal for the
23 protection of the public and this state.

24 (4) Through the video lottery system this state will
25 monitor the network of video lottery terminals to ensure maximum
26 security unique to state-regulated gambling. Except as may
27 otherwise be provided by state or federal law governing gaming on

1 Indian lands, each operating video lottery terminal in this state
2 will be connected to a video lottery central system.

3 (5) Limited gaming is intended to enhance live horse
4 and greyhound racing, horse shows and events, horse and greyhound
5 breeding programs, entertainment, and employment in tourism and
6 agricultural industries of Texas and to assist this state's horse
7 and greyhound racing industry, support programs intended to foster
8 and promote horse and greyhound breeding, and improve the living
9 and working conditions of personnel who work and reside in and
10 around the stable and backside areas of racetracks.

11 (6) In authorizing only a state-regulated and
12 state-operated video lottery central system and state-regulated
13 video lottery terminals in limited locations and continuing the
14 general prohibition on gambling in this state as a matter of public
15 policy, this state is protecting the state's legitimate interests
16 by restricting such activity. By limiting the operation of video
17 lottery terminals to those connected to the state-regulated video
18 lottery system on certain land with certain types of games, the
19 legislature seeks to foster this state's legitimate sovereign
20 interest in regulating the growth of gambling activities in this
21 state.

22 (7) This subchapter is game-specific and may not be
23 construed to allow the operation of any other form of gambling
24 unless specifically allowed by this subchapter. This subchapter
25 does not allow the operation of dice games, roulette wheels,
26 house-banked games, including house-banked card games, or games in
27 which winners are determined by the outcome of a live sports contest

1 that are expressly prohibited under other state law.

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

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

5 (b) To the extent of any inconsistency between this
6 subchapter and the Texas Racing Act (Article 179e, Vernon's Texas
7 Civil Statutes), the Alcoholic Beverage Code, or other law, this
8 subchapter controls.

9 (c) To the extent of any inconsistency between Chapter 2003
10 and this subchapter or a commission rule governing video lottery
11 terminals, this subchapter or the commission rule controls in all
12 matters related to video lottery terminals.

13 (d) Shipments of video lottery equipment operated under
14 commission authority and this subchapter are exempt from 15 U.S.C.
15 Sections 1171-1178.

16 Sec. 466.503. CONDUCT RELATED TO OPERATION OF VIDEO LOTTERY
17 TERMINALS BY INDIAN TRIBES. Notwithstanding any provision of this
18 chapter, conduct authorized in connection with video lottery
19 terminals under this subchapter, including conduct in which a
20 person who holds a license, certificate of registration, finding of
21 suitability, or other affirmative regulatory approval under this
22 subchapter is authorized to engage under the license, certificate
23 of registration, finding of suitability, or other affirmative
24 regulatory approval, is also authorized for the conduct of video
25 lottery terminals by Indian tribes that is allowed under other law.

26 Sec. 466.504. AUTHORITY TO OPERATE VIDEO LOTTERY SYSTEM.

27 The commission may implement and operate a video lottery system and

1 regulate the operation of video lottery terminals at racetracks in
2 accordance with this subchapter and the Texas Racing Act (Article
3 179e, Vernon's Texas Civil Statutes).

4 Sec. 466.505. VIDEO LOTTERY GAMES; STATE OWNERSHIP AND
5 PROPRIETARY INTEREST. For purposes of this subchapter, this state
6 may acquire a proprietary interest in video lottery game software
7 through:

8 (1) ownership of the software; or

9 (2) an exclusive product license agreement with a
10 provider in which the provider retains copyrighted ownership of the
11 software but the license granted to this state is nontransferable
12 and authorizes this state to operate the software program, solely
13 for the state's own use, on the video lottery central system and
14 video lottery terminals connected to the video lottery central
15 system.

16 Sec. 466.506. STATE CONTROL OF VIDEO LOTTERY SYSTEM. (a)
17 In accordance with Section 47a, Article III, Texas Constitution,
18 the commission shall control and regulate the video lottery system
19 and the video lottery central system through which this state has
20 the exclusive and unilateral ability to monitor activity of video
21 lottery terminals and remotely disable video lottery terminals for
22 the public safety, health, and welfare or the preservation of the
23 integrity of the lottery and to prevent any financial loss to this
24 state.

25 (b) This section does not affect or restrict the ability of
26 a video lottery manager or video lottery retailer to monitor
27 activity of video lottery terminals and to disable video lottery

1 terminals in accordance with commission rules.

2 (c) The commission may disable a video lottery terminal if a
3 video lottery retailer's or video lottery manager's license is
4 revoked, surrendered, or summarily suspended under this subchapter
5 and to prevent any financial loss to this state.

6 Sec. 466.507. VIDEO LOTTERY CENTRAL SYSTEM. (a) The
7 commission shall establish or cause to be established a video
8 lottery central system to link all video lottery terminals in the
9 video lottery system. The video lottery central system must
10 provide the auditing, security, and other information required by
11 the commission.

12 (b) The commission shall provide to a registered or approved
13 video lottery terminal provider or an applicant applying for
14 registration or approval as a video lottery terminal provider the
15 protocol documentation data necessary to enable the provider's or
16 applicant's video lottery terminals to communicate with the
17 commission's video lottery central system for transmission of
18 auditing program information and for activation and disabling of
19 video lottery terminals.

20 (c) The video lottery central system design may not limit or
21 preclude potential providers from providing state-of-the-art,
22 industry-standard video lottery terminals and associated equipment
23 such as player tracking systems, accounting systems, progressive
24 systems, and bonusing systems, except for providers that fail to
25 meet registration or approval specifications established by the
26 commission.

27 (d) The commission may contract with a video lottery central

1 system provider to establish the video lottery central system.

2 Sec. 466.508. VIDEO LOTTERY TERMINAL PROVIDER:
3 REGISTRATION OR APPROVAL REQUIRED. (a) A person may not
4 manufacture or distribute video lottery equipment for use or play
5 in this state unless the person is registered as a video lottery
6 terminal provider or is otherwise approved by the commission to
7 manufacture or distribute video lottery equipment in this state. A
8 video lottery retailer may also hold a certificate of registration
9 or other approval as a video lottery terminal provider under this
10 section.

11 (b) Unless suspended or revoked, the certificate of
12 registration or approval expires on the date specified by the
13 commission, which may not be later than the 10th anniversary of the
14 date of the registration or approval. A person may renew an
15 unexpired registration or approval by paying the required renewal
16 fee and complying with the requirements of this subchapter and
17 commission rule.

18 (c) To be eligible for registration or approval as required
19 by this section, an applicant must satisfy all applicable
20 requirements under this subchapter.

21 Sec. 466.509. VIDEO LOTTERY TERMINAL PROVIDER:
22 APPLICATION; CHANGE IN INFORMATION. (a) The commission shall
23 adopt rules governing the registration or approval of video lottery
24 terminal providers and the information an applicant must provide to
25 the commission. The rules must require the application and any
26 other form or document submitted to the commission by or on behalf
27 of the applicant to determine the applicant's qualification under

1 this section to be sworn to or affirmed before an officer qualified
2 to administer oaths.

3 (b) The applicant must demonstrate the ability to comply
4 with all manufacturing, quality control, and operational
5 restrictions imposed on authorized video lottery equipment,
6 patented or otherwise restricted video lottery games, or other
7 video lottery equipment that the applicant seeks to manufacture or
8 distribute for use in this state. The registration or approval
9 process must include an on-site review of the applicant's
10 manufacturing equipment and process for each separate type of
11 authorized video lottery equipment to ensure compliance with the
12 requirements of this chapter and commission rules.

13 (c) Not later than the 30th day after the date of any change
14 in the information submitted on or with the application form, the
15 applicant shall notify the commission of the change, including a
16 change that occurs after the certificate of registration or other
17 approval has been granted.

18 (d) The applicant shall comply with all federal and state
19 laws, local ordinances, and rules.

20 Sec. 466.510. VIDEO LOTTERY TERMINAL PROVIDER: APPLICATION
21 FEE. (a) An applicant seeking registration or approval or renewal
22 of registration or approval as a video lottery terminal provider
23 must pay a nonrefundable application fee in the amount prescribed
24 by commission rule that is sufficient to pay the costs to the
25 commission of administering and approving video lottery terminals.

26 (b) Application fees paid under this section may only be
27 appropriated to the commission to defray costs incurred in the

1 administration and enforcement of this subchapter relating to the
2 operation of video lottery terminals.

3 Sec. 466.511. VIDEO LOTTERY RETAILER OR VIDEO LOTTERY
4 MANAGER LICENSE REQUIRED. Except as specifically provided by other
5 law, a person may not own or operate a video lottery terminal if the
6 person does not satisfy the requirements of this subchapter and is
7 not licensed by the commission to act as a video lottery retailer or
8 video lottery manager.

9 Sec. 466.512. VIDEO LOTTERY RETAILER OR VIDEO LOTTERY
10 MANAGER: APPLICATION AND QUALIFICATION. (a) An applicant for a
11 video lottery retailer or video lottery manager license must:

12 (1) hold a valid racetrack or pari-mutuel license
13 originally granted by the Texas Racing Commission under the Texas
14 Racing Act (Article 179e, Vernon's Texas Civil Statutes) on or
15 before January 1, 2013, and the location for the video lottery
16 terminal establishment must be in the county in which the license
17 holder's racetrack was authorized to operate under that license;

18 (2) have a valid and executed contract with a
19 racetrack or pari-mutuel license holder who satisfies the
20 requirements of Subdivision (1) to act as a video lottery manager
21 for the racetrack subject to licensing under this subchapter; or

22 (3) demonstrate to the commission's satisfaction that
23 the applicant seeks to act as a video lottery manager for a
24 federally recognized Indian tribe.

25 (b) Each officer, partner, director, key employee,
26 substantial interest holder, video lottery game operation
27 employee, and owner of video lottery game operations must be

1 eligible and maintain eligibility in accordance with this
2 subchapter to be involved in video lottery games in this state.

3 (c) The commission shall issue a video lottery retailer or
4 manager license to an applicant who meets the criteria established
5 by the commission rules.

6 (d) The commission shall adopt rules to implement this
7 section.

8 Sec. 466.513. VIDEO LOTTERY RETAILER OR VIDEO LOTTERY
9 MANAGER: APPLICATION FEE. (a) An applicant for a video lottery
10 retailer or video lottery manager license shall submit a
11 nonrefundable application processing fee in the amount prescribed
12 by commission rule that is sufficient and reasonable to pay the
13 costs of determining the applicant's eligibility, not to exceed
14 \$5,000.

15 (b) An application may not be processed until the applicant
16 pays the application fee. If the application fee is not received by
17 the 30th day after the date the commission notifies the applicant of
18 the amount of the fee, the application is considered withdrawn and
19 may not be considered by the commission.

20 Sec. 466.514. VIDEO LOTTERY TERMINAL ESTABLISHMENT
21 LICENSE: REQUIREMENTS; LOCATION. (a) An applicant for a video
22 lottery terminal establishment license must ensure that the
23 facility for the establishment will comply with all applicable
24 building codes and rules of the commission. The rules adopted by
25 the commission relating to facilities for video lottery
26 establishments must relate solely to this state's interest in the
27 operation of video lottery terminals.

1 (b) A video lottery terminal establishment shall provide
2 office space for the commission sufficient for at least one
3 commission employee.

4 (c) An applicant for a video lottery terminal establishment
5 license or a license holder shall provide the information required
6 by commission rule relating to the applicant's or license holder's
7 video lottery terminal establishment and update the information at
8 least annually.

9 (d) Notwithstanding Section 466.155, the commission may not
10 deny, suspend, or revoke a license under this subchapter based on
11 the fact that a video lottery terminal establishment or a proposed
12 video lottery terminal establishment is a location for which a
13 person holds a wine and beer retailer's permit, mixed beverage
14 permit, mixed beverage late hours permit, private club registration
15 permit, or private club late hours permit, issued under Chapter 25,
16 28, 29, 32, or 33, Alcoholic Beverage Code.

17 (e) A video lottery terminal establishment may be located
18 only at the premises of a racetrack.

19 (f) Notwithstanding Subsections (a) and (b) and on request
20 of an applicant for a video lottery terminal establishment license,
21 the commission by rule shall authorize the applicant, on receipt of
22 a license issued under this chapter to operate a video lottery
23 terminal establishment at a racetrack that meets the requirements
24 of Section 466.538, to construct temporary facilities to house and
25 operate video lottery equipment for not more than two years. A
26 racetrack that is granted a waiver described by Section 466.538(h)
27 is considered to meet the requirements of Section 466.538 for

1 purposes of this subsection.

2 Sec. 466.515. LICENSE HOLDER AS SALES AGENT. The holder of
3 a video lottery retailer or video lottery manager license may
4 operate as a sales agent for lottery tickets in accordance with this
5 chapter.

6 Sec. 466.516. TERM; RENEWAL ELIGIBILITY. (a) Unless
7 suspended or revoked, a license, certificate of registration,
8 finding of suitability, or other affirmative regulatory approval
9 issued under this subchapter, other than a video lottery retailer
10 license, expires on the date specified in the license, certificate
11 of registration, finding, or approval, which may not be later than
12 the 10th anniversary of the date of issuance.

13 (b) A video lottery retailer license is valid for the same
14 term as the retailer's racetrack or pari-mutuel license issued
15 under the Texas Racing Act (Article 179e, Vernon's Texas Civil
16 Statutes) unless suspended or revoked. The commission may charge
17 an annual fee not to exceed \$50,000 to the holder of a video lottery
18 retailer license.

19 (c) To be eligible for renewal of a license, certificate of
20 registration, finding of suitability, or other affirmative
21 regulatory approval, an applicant must satisfy all applicable
22 requirements under this subchapter.

23 Sec. 466.517. RULES FOR ADDITIONAL QUALIFICATIONS. The
24 commission by rule may establish other license, certificate of
25 registration, finding of suitability, or approval qualifications
26 the commission determines are in the public interest and consistent
27 with the declared policy of this state.

1 Sec. 466.518. APPLICATION AS REQUEST FOR CHARACTER
2 DETERMINATION. An application under this subchapter to receive or
3 renew a license, certificate of registration, finding of
4 suitability, or other affirmative regulatory approval constitutes
5 a request for a determination of the applicant's general character,
6 integrity, and ability to participate or engage in or be associated
7 with the operation of video lottery terminals.

8 Sec. 466.519. IMMUNITY FOR STATEMENT MADE IN PROCEEDING OR
9 INVESTIGATION. Any written or oral statement made in the course of
10 an official commission proceeding or investigative activities
11 related to an application for commission licensing, registration,
12 suitability determination, or other affirmative regulatory
13 approval under this subchapter, by any member or agent or any
14 witness testifying under oath, that is relevant to the purpose of
15 the proceeding is absolutely privileged and does not impose
16 liability for defamation or constitute a ground for recovery in any
17 civil action.

18 Sec. 466.520. SUITABILITY FINDING. To promote the
19 integrity and security of the video lottery system, the commission
20 in its discretion may require a suitability finding for any person
21 doing business with or in relation to the operation of video lottery
22 terminals who is not otherwise required to obtain a license,
23 certificate of registration, or approval from the commission for
24 the person's video lottery-related operations.

25 Sec. 466.521. SUMMARY SUSPENSION OF VIDEO LOTTERY RETAILER
26 OR VIDEO LOTTERY MANAGER LICENSE; TERMINAL DISABLED. (a) The
27 commission may summarily suspend the license of a video lottery

1 retailer or video lottery manager without notice or hearing if the
2 commission finds the action is necessary to maintain the integrity,
3 security, honesty, or fairness of the operation or administration
4 of the lottery or to prevent financial loss to this state and:

5 (1) the license holder fails to deposit money received
6 from video lottery terminal operations as required by this
7 subchapter or commission rule;

8 (2) an event occurs that renders the license holder
9 ineligible for a license under this subchapter;

10 (3) the license holder refuses to allow the
11 commission, the commission's agents, the state auditor, or the
12 state auditor's designees to examine the license holder's books,
13 records, papers, or other objects under Section 466.017; or

14 (4) the executive director learns the license holder
15 failed to disclose information that would, if disclosed, render the
16 video lottery retailer or video lottery manager ineligible for a
17 license under this subchapter.

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

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

22 (1) a proceeding to summarily suspend the license is
23 initiated;

24 (2) the commission discovers the license holder failed
25 to deposit money received from video lottery terminal operations as
26 required if the license is being summarily suspended under this
27 section; or

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

4 (A) protect the integrity of the lottery or the
5 public health, welfare, or safety; or

6 (B) prevent financial loss to this state.

7 (d) The commission shall immediately disable a video
8 lottery terminal if necessary to protect the public health,
9 welfare, or safety.

10 Sec. 466.522. LICENSING, REGISTRATION, SUITABILITY, AND
11 REGULATORY APPROVAL AS REVOCABLE PERSONAL PRIVILEGES. (a) The
12 purchaser or successor of a person who holds a license, certificate
13 of registration, finding of suitability, or other affirmative
14 regulatory approval under this subchapter must independently
15 qualify for a license, registration, suitability, or approval
16 required by this subchapter.

17 (b) Unless approved in advance by the commission, the
18 license, certificate of registration, finding of suitability, or
19 other affirmative regulatory approval of the holder is void on:

20 (1) the transfer, sale, or other disposition of an
21 interest in the holder that results in a change in the identity of a
22 substantial interest holder; or

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

27 Sec. 466.523. VIDEO LOTTERY TERMINAL. The commission shall

1 provide all video lottery retailers or video lottery managers with
2 a list of registered video lottery terminal providers, video
3 lottery games, and video lottery terminals authorized for operation
4 under this subchapter.

5 Sec. 466.524. VIDEO LOTTERY TERMINAL: DISTRIBUTION AND
6 COMMISSION APPROVAL. (a) A video lottery terminal provider may not
7 distribute a video lottery terminal or other video lottery
8 equipment for placement at a video lottery terminal establishment
9 in this state unless the video lottery terminal or other video
10 lottery equipment has been approved by the commission.

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

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

19 Sec. 466.525. VIDEO LOTTERY TERMINAL: TESTING; REPORT. (a)
20 A video lottery terminal provider shall submit two copies of
21 terminal illustrations, schematics, block diagrams, circuit
22 analysis, technical and operation manuals, and any other
23 information requested by the commission for the purpose of
24 analyzing and testing the video lottery terminal or other video
25 lottery equipment.

26 (b) The commission may require a working model of a video
27 lottery terminal to be provided to the commission unless the video

1 lottery terminal provider provides a certification from an
2 independent, commission-approved testing laboratory that the video
3 lottery terminal is compatible with the state's video lottery
4 system and functions as required by the commission.

5 Sec. 466.526. VIDEO LOTTERY TERMINAL: INSTALLATION;
6 MODIFICATION REQUEST. (a) A video lottery terminal provider is
7 responsible for the assembly and installation of all video lottery
8 terminals and related video lottery equipment.

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

- 15 (1) a detailed description of the type of change;
16 (2) a detailed description of the reasons for the
17 change; and
18 (3) technical documentation of the change.

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

23 Sec. 466.527. VIDEO LOTTERY TERMINAL REMOVAL. (a) If any
24 video lottery terminal that has not been approved by the commission
25 is distributed by a video lottery terminal provider or operated by a
26 video lottery retailer or video lottery manager or if an approved
27 video lottery terminal malfunctions, the commission shall require

1 the terminal to be removed from use and play.

2 (b) The commission may order that an unapproved terminal be
3 seized and destroyed.

4 (c) The commission may suspend or revoke the license of a
5 video lottery retailer or video lottery manager or the registration
6 or approval of a video lottery terminal provider for the
7 distribution, possession, or operation of an unauthorized video
8 lottery terminal.

9 (d) A video lottery retailer or video lottery manager may
10 retain on the premises of a video lottery establishment a number of
11 machines that the retailer or manager determines is necessary for
12 spare parts or repair purposes or as replacements. The retailer or
13 manager must provide to the commission each month a list of the
14 terminals retained under this subsection.

15 Sec. 466.528. VIDEO LOTTERY TERMINAL SPECIFICATIONS. (a)
16 The commission shall adopt rules for approval of video lottery
17 terminals, including requirements for video lottery game tickets,
18 maximum and minimum payout, and maximum wagers.

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

21 (1) the terminal must:

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

27 (B) allow the player to win additional game play

1 credits, coins, or tokens based on game rules that establish the
2 random selection of winning combinations of symbols or numbers and
3 the number of free play credits, coins, or tokens to be awarded for
4 each winning combination; and

5 (C) allow the player at any time to clear all game
6 play credits and receive a video lottery ticket or other
7 representation of credits entitling the player to receive the cash
8 value of those credits;

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

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

20 (4) the main logic boards of all electronic storage
21 mediums must be located in a separate compartment in or from the
22 video lottery terminal that is locked and sealed by the commission;

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

27 (6) communication equipment and devices must be

1 installed to enable each video lottery terminal to communicate with
2 the video lottery central system through the use of a
3 communications protocol provided by the commission to each
4 registered video lottery terminal provider, which must include
5 information retrieval and programs to activate and disable the
6 terminal; and

7 (7) a video lottery terminal may be operated only if
8 connected to the video lottery central system, and play on the
9 terminal may not be conducted unless the terminal is connected to
10 the video lottery central system.

11 Sec. 466.529. VIDEO LOTTERY TERMINALS: HOURS OF OPERATION;
12 COMMUNICATION; LOCATION. (a) Except as otherwise provided by the
13 commission, the hours of operation for video lottery terminals are
14 subject to restrictions only as provided by commission rules.

15 (b) The commission by rule may prescribe restrictions on the
16 hours of video lottery terminal operations for purposes of
17 accounting for and collecting revenue generated by video lottery
18 terminal operations and performing other operational services on
19 the video lottery 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 commission rule, placement or
24 movement of video lottery terminals in a video lottery terminal
25 establishment must be consistent with a video lottery terminal
26 establishment floor plan filed with the commission.

27 Sec. 466.530. 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.

8 Sec. 466.531. TRAVEL AND INVESTIGATION COSTS. The
9 commission shall pay the travel and investigative expenses incurred
10 under this subchapter from money appropriated to the commission.

11 Sec. 466.532. CONSENT TO COMMISSION DETERMINATION. (a) An
12 application for a license, certificate of registration, finding of
13 suitability, or other affirmative regulatory approval under this
14 subchapter constitutes a request to the commission for a decision
15 on the applicant's general suitability, character, integrity, and
16 ability to participate or engage in or be associated with the
17 lottery in the manner or position sought.

18 (b) By filing an application with the commission, the
19 applicant consents to the commission's decision at the commission's
20 election when the application, after filing, becomes moot for any
21 reason other than death.

22 Sec. 466.533. ABSOLUTE AUTHORITY OF COMMISSION. To protect
23 the integrity of the lottery or the public health, welfare, or
24 safety, or to prevent financial loss to this state, the commission
25 has full and absolute power and authority, subject to Chapter 2001,
26 to:

27 (1) deny any application or limit, condition,

1 restrict, revoke, or suspend any license, certificate of
2 registration, finding of suitability, or other affirmative
3 regulatory approval; and

4 (2) for cause fine any person licensed, registered,
5 found suitable, or approved.

6 Sec. 466.534. INSTITUTIONAL INVESTOR. The commission shall
7 adopt rules regarding a finding of suitability for an institutional
8 investor in a person licensed under this subchapter.

9 Sec. 466.535. EFFECT OF DENIAL OF LICENSE, CERTIFICATE OF
10 REGISTRATION, FINDING OF SUITABILITY, OR APPROVAL. (a) A person
11 whose application for a license, certificate of registration,
12 finding of suitability, or other affirmative regulatory approval
13 has been denied may not have any interest in or association with a
14 video lottery retailer or video lottery manager or any other
15 business conducted in connection with video lottery without prior
16 approval of the commission.

17 (b) Any contract between a person holding a license,
18 certificate of registration, finding of suitability, or other
19 affirmative regulatory approval and a person denied a license,
20 certificate of registration, finding of suitability, or other
21 affirmative regulatory approval must be terminated immediately on
22 receipt of notice from the commission. If the person denied a
23 license, certificate of registration, finding of suitability, or
24 other affirmative regulatory approval has previously been granted a
25 temporary license, certificate of registration, finding of
26 suitability, or other affirmative regulatory approval, the
27 temporary license, certificate of registration, finding of

1 suitability, or other affirmative regulatory approval expires
2 immediately on denial of the permanent license, certificate of
3 registration, finding of suitability, or other affirmative
4 regulatory approval.

5 (c) Except as otherwise authorized by the commission, a
6 person denied a license, certificate of registration, finding of
7 suitability, or other affirmative regulatory approval may not
8 reapply for any license, certificate of registration, finding of
9 suitability, or other affirmative regulatory approval before the
10 second anniversary of the date of the denial.

11 Sec. 466.536. PRACTICE BY VIDEO LOTTERY RETAILER OR VIDEO
12 LOTTERY MANAGER. A video lottery retailer or video lottery manager
13 must:

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

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

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

19 (4) promptly report all video lottery terminal
20 malfunctions and downtime;

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

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

25 (7) except as otherwise provided by this subchapter,
26 at all times prohibit money lending or other extensions of credit at
27 the video lottery terminal establishment;

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

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

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

11 Sec. 466.537. RACETRACK REQUIREMENTS. (a) A video lottery
12 retailer at all times must hold a valid racetrack or pari-mutuel
13 wagering license issued by the Texas Racing Commission.

14 (b) A video lottery retailer that meets the qualifications
15 of Section 466.512(a)(1) is considered to meet the requirements of
16 this section.

17 Sec. 466.538. LIVE RACING REQUIREMENT. (a) "Class 1
18 racetrack," "class 2 racetrack," and "class 3 racetrack" have the
19 meanings assigned by Section 6.02, Texas Racing Act (Article 179e,
20 Vernon's Texas Civil Statutes).

21 (b) Except as provided by Subsection (d), a class 1
22 racetrack that operates a video lottery terminal establishment:

23 (1) shall annually offer for pari-mutuel wagering on
24 quarter horse and Thoroughbred races at that racetrack not fewer
25 than the greater of:

26 (A) the number of live racing days conducted by
27 the racetrack for each breed in 2002; or

1 (B) 50 live race days or 500 live races for each
2 breed; and

3 (2) may not conduct live racing on any day on which
4 another horse racetrack located within a 100-mile radius of the
5 racetrack conducts live racing for the same breed.

6 (c) Except as provided by Subsection (d), a class 2
7 racetrack that operates a video lottery terminal establishment:

8 (1) shall annually offer for pari-mutuel wagering on
9 quarter horse and Thoroughbred races at that racetrack not fewer
10 than the greater of:

11 (A) the number of live racing days conducted by
12 the racetrack for each breed in 2002; or

13 (B) 25 live race days or 250 live races for each
14 breed; and

15 (2) may not conduct live racing on any day on which
16 another horse racetrack within a 100-mile radius of the racetrack
17 conducts live racing for the same breed.

18 (d) A class 1 or class 2 racetrack may conduct fewer live
19 racing days or live races than required by Subsection (b) or (c) for
20 any breed if the racetrack, the applicable officially recognized
21 breed registry, and the officially recognized horsemen's
22 organization for that breed enter into a written agreement to
23 conduct fewer racing days or live races.

24 (e) A class 2 or class 3 racetrack that operates a video
25 lottery terminal establishment and that is located within a
26 100-mile radius of a class 1 racetrack may not conduct a horse race
27 in a manner that, for any breed, would result in:

1 (1) an average daily purse amount that exceeds the
2 average daily purse amount at the immediately preceding race
3 meeting for that breed at the class 1 racetrack unless otherwise
4 agreed to by both racetracks; or

5 (2) total purse amounts for that race meeting that
6 exceed the total purse amounts for the immediately preceding race
7 meeting for that breed at the class 1 racetrack unless otherwise
8 agreed to by both racetracks.

9 (f) A class 2 or class 3 racetrack subject to Subsection (e)
10 shall transfer any purse money in the Texas equine development fund
11 for that racetrack in excess of the maximum purse amounts
12 authorized under Subsection (e) to the horsemen's organization for
13 the same breed at the class 1 racetrack within the specified radius
14 for use by the organization, unless the class 1 racetrack and the
15 horsemen's organization agree to allow some or all of the excess
16 purse money to be transferred and used for the same breed by the
17 horsemen's organization at another racetrack or racetracks.

18 (g) A greyhound racetrack that operates a video lottery
19 terminal establishment shall offer not fewer than 420 live
20 greyhound racing performances in each calendar year, unless
21 otherwise agreed to in writing by the racetrack and the officially
22 recognized greyhound breed registry. For purposes of this
23 subsection, "greyhound racing performance" means the consecutive
24 running of not fewer than 12 greyhound races.

25 (h) The Texas Racing Commission shall adopt rules to
26 implement this section, including rules governing waiver of the
27 requirements of this section due to fire, weather, absence of

1 existing facilities required to conduct pari-mutuel wagering on
2 live racing, or other events beyond the reasonable control of the
3 pari-mutuel license holder. A waiver granted under this subsection
4 for construction of a new racetrack facility:

5 (1) expires on the second anniversary of the date of
6 issuance; and

7 (2) must include a provision that addresses the
8 transfer of a portion of the revenue generated from the operation of
9 the video lottery terminals as provided under this chapter to the
10 applicable Texas equine development fund or Texas canine
11 development fund during the term of the waiver.

12 (i) If a racetrack is in violation of this section and is
13 denied a waiver of the requirements of this section by the Texas
14 Racing Commission, the racing commission shall:

15 (1) require that, beginning on the date the request
16 for the waiver is denied, the racetrack's share of net terminal
17 income be placed in an escrow account and remain in that account
18 until the racing commission approves its release; and

19 (2) provide for the timely release of money from the
20 escrow account for required payments of debt instruments, license
21 fees, and other ordinary operating expenses.

22 (j) The Texas Racing Commission may not approve the release
23 of the remainder of the money in the escrow account after the
24 payments authorized under Subsection (i)(2) until the racing
25 commission certifies that, in the racing commission's judgment, the
26 racetrack has taken the actions required by the racing commission
27 to correct violations of this section. If the racing commission

1 makes the certification before live racing resumes at the
2 racetrack, it shall grant a waiver of the requirements of this
3 section. The actions required by the racing commission to correct
4 violations of this section must be a condition of the waiver and
5 must include a period for completion of the specified actions. If
6 the racetrack fails to adhere to the conditions of the waiver, the
7 waiver is revoked.

8 (k) A racetrack is ineligible to hold a video lottery
9 terminal establishment license under this subchapter if:

10 (1) the Texas Racing Commission denies a waiver of the
11 requirements of this section;

12 (2) the denial is not reversed after all appeals of
13 that decision by that racetrack are final; and

14 (3) the racetrack fails to take the actions required
15 by the racing commission to correct violations of this section.

16 Sec. 466.539. PRIZE RULES. The commission shall adopt
17 rules governing:

18 (1) the range of amounts a player may be charged to
19 play each video lottery game; and

20 (2) the range of prizes and credits that may be awarded
21 to the player of a video lottery game.

22 Sec. 466.540. VIDEO LOTTERY CENTRAL SYSTEM: COMMUNICATION
23 TECHNOLOGY. The video lottery central system provider shall pay
24 for the installation and operation of commission-approved
25 communication technology to provide communication between each
26 video lottery terminal and the video lottery central system.

27 Sec. 466.541. RESPONSIBILITY FOR VIDEO LOTTERY GAME

1 OPERATIONS. (a) A video lottery retailer or a video lottery
2 manager, if applicable, is responsible for the management of video
3 lottery game operations, including:

4 (1) the validation and payment of prizes,
5 determination of game themes, prizes, bonuses, progressives,
6 number and placement of video lottery terminals, and individual pay
7 out percentage settings; and

8 (2) the management of cashiers, food and beverage
9 workers, floor workers, security personnel, the security system,
10 building completion, janitorial services, landscaping design, and
11 maintenance.

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

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

19 (1) operate only video lottery terminals that are
20 distributed by a registered or approved video lottery terminal
21 provider and provide a secure location for the placement,
22 operation, and play of the video lottery terminals;

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

25 (3) ensure that communication technology from the
26 video lottery central system to the video lottery terminals is
27 connected at all times and prevent any person from tampering or

1 interfering with the operation of the connection;

2 (4) ensure that video lottery terminals are in the
3 sight and control of designated employees of the video lottery
4 retailer or video lottery manager and in the sight of video cameras
5 as required under this subchapter;

6 (5) ensure that video lottery terminals are placed and
7 remain placed in the locations in the video lottery terminal
8 establishment that are consistent with the retailer's or manager's
9 floor plan;

10 (6) monitor video lottery terminals to prevent access
11 to or play by persons who are under 21 years of age or who are
12 visibly intoxicated;

13 (7) pay all credits won by a player on presentment of a
14 valid winning video lottery game ticket;

15 (8) install, post, and display prominently at the
16 licensed location redemption information and other informational
17 or promotional materials as required by the commission;

18 (9) maintain general liability insurance coverage for
19 the video lottery terminal establishment and all video lottery
20 terminals in the amounts required by the commission;

21 (10) assume liability for money lost or stolen from
22 any video lottery terminal; and

23 (11) annually submit an audited financial statement to
24 the commission in accordance with generally accepted accounting
25 principles.

26 Sec. 466.542. TECHNICAL STANDARDS FOR VIDEO LOTTERY
27 EQUIPMENT. The commission by rule shall establish minimum

1 technical standards for video lottery equipment that may be
2 operated in this state.

3 Sec. 466.543. INCIDENT REPORTS. (a) A video lottery
4 retailer or video lottery manager shall record all unusual
5 occurrences related to gaming activity in a video lottery terminal
6 establishment operated by the retailer or manager.

7 (b) A video lottery retailer or video lottery manager shall
8 assign each material incident, without regard to materiality, a
9 sequential number and, at a minimum, provide the following
10 information in a permanent record prepared in accordance with
11 commission rules to ensure the integrity of the record:

- 12 (1) the number assigned to the incident;
13 (2) the date and time of the incident;
14 (3) the nature of the incident;
15 (4) each person involved in the incident; and
16 (5) the name of the employee or other agent of the
17 video lottery retailer or video lottery manager who investigated
18 the incident.

19 Sec. 466.544. EXCLUSION OF PERSONS. (a) The commission
20 shall compile a list of persons that a video lottery retailer or
21 video lottery manager must bar from a video lottery terminal
22 establishment based on each person's criminal history or
23 association with criminal offenders or because the person poses a
24 threat to the integrity of the lottery.

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

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

4 (d) An individual who believes that he or she may be playing
5 video lottery games on a compulsive basis may request that the
6 individual's name be placed on the list compiled by the commission
7 under Subsection (a).

8 (e) All video lottery game employees shall receive training
9 in identifying players with a compulsive playing problem. Signs
10 and other materials shall be readily available to direct compulsive
11 players to agencies that offer appropriate counseling.

12 Sec. 466.545. REPORT ON LITIGATION. (a) A video lottery
13 retailer or video lottery manager shall report to the commission
14 any litigation relating to the retailer's or manager's video
15 lottery terminal establishment, including a criminal proceeding, a
16 proceeding involving an issue related to racing activities that
17 impact video lottery operations, or a matter related to character
18 or reputation relevant to a person's suitability under this
19 subchapter.

20 (b) The report required under Subsection (a) must be filed
21 not later than the fifth day after the date the video lottery
22 retailer or video lottery manager acquires knowledge of the
23 litigation.

24 Sec. 466.546. COMMISSION APPROVAL REQUIRED FOR PROCEDURES
25 AND ACCOUNTING CONTROLS. (a) The commission's approval is
26 required for all internal procedures and accounting controls of a
27 video lottery retailer or video lottery manager.

1 (b) The commission by rule shall establish general
2 accounting and auditing requirements and internal control
3 standards for video lottery retailers and video lottery managers.

4 Sec. 466.547. VIDEO LOTTERY TERMINAL EVENTS. A video
5 lottery retailer or video lottery manager shall keep a record of
6 video lottery terminal events. The commission by rule shall
7 determine what constitutes a video lottery terminal event for
8 purposes of this section.

9 Sec. 466.548. EMPLOYEE REPORTING. (a) On or before the
10 15th day of each month, a video lottery retailer or video lottery
11 manager shall submit to the commission an employee report for the
12 video lottery terminal establishment operated by the retailer or
13 manager. The report must provide the name, job title, date of
14 birth, and social security number of each employee of the retailer
15 or manager.

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

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

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

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

27 (2) concealed or refused to disclose any material fact

1 in any commission investigation;

2 (3) committed, attempted, or conspired to commit
3 larceny or embezzlement;

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

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

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

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

21 (8) been convicted of any felony or any crime
22 involving moral turpitude.

23 (e) The commission may prohibit an employee from performing
24 any act relating to video lottery terminals based on a revocation or
25 suspension of any gaming or wagering license, certificate of
26 registration, finding of suitability, or other affirmative
27 regulatory approval or for any other reason the commission finds

1 appropriate, including a refusal by a regulatory authority to issue
2 a license, certificate of registration, finding of suitability, or
3 other affirmative regulatory approval for the employee to engage in
4 or be involved with the lottery or with regulated gaming or
5 pari-mutuel wagering in any jurisdiction.

6 (f) In this section, "employee" includes any person
7 compensated by an applicant or the holder of a license, certificate
8 of registration, finding of suitability, or other affirmative
9 regulatory approval under this subchapter as an agent, personal
10 representative, consultant, or independent contractor for
11 activities directly related to video lottery operations in this
12 state.

13 Sec. 466.549. REPORT OF VIOLATIONS. A person who holds a
14 license, certificate of registration, finding of suitability, or
15 other affirmative regulatory approval under this subchapter shall
16 immediately report a violation or suspected violation of this
17 chapter or a rule adopted under this chapter by any holder of a
18 license, certificate of registration, finding of suitability, or
19 other affirmative regulatory approval, by an employee of the
20 holder, or by any person on the premises of a video lottery terminal
21 establishment, whether or not associated with the holder.

22 Sec. 466.550. SECURITY. (a) In addition to the security
23 provisions applicable under Section 466.020, a video lottery
24 retailer or video lottery manager shall institute security
25 procedures to ensure that:

26 (1) all video lottery terminals are continuously
27 monitored through the use of a closed-circuit television system

1 that records activity for a continuous 24-hour period and all video
2 tapes or other media used to store video images are retained for at
3 least 30 days and made available to the commission on request;

4 (2) access to video lottery terminal areas is
5 restricted to persons who are at least 21 years of age;

6 (3) the video lottery retailer or video lottery
7 manager provides to the commission a security plan for the retailer
8 or manager's video lottery operations that includes a floor plan of
9 the area where video lottery terminals are to be operated showing
10 video lottery terminal locations and security camera mount
11 locations; and

12 (4) each license holder employs at least the minimum
13 number of private security personnel the commission determines is
14 necessary to provide for safe and approved operation of the video
15 lottery terminal establishment and the safety and well-being of the
16 players.

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

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

22 (d) The commission may adopt rules to impose additional
23 surveillance and security requirements related to video lottery
24 terminal establishments and the operation of video lottery
25 terminals.

26 Sec. 466.551. VIDEO LOTTERY TERMINAL ESTABLISHMENT:
27 COMMISSION RIGHT TO ENTER. The commission, the commission's

1 representative, the Texas Racing Commission, or a representative of
2 the Texas Racing Commission, after displaying appropriate
3 identification and credentials, has the free and unrestricted right
4 to enter the premises of a video lottery terminal establishment and
5 to enter any other locations involved in operation or support of
6 video lottery at all times to examine the systems and to inspect and
7 copy the records of a video lottery retailer or video lottery
8 manager pertaining to the operation of video lottery.

9 Sec. 466.552. INDEMNIFICATION REQUIREMENTS. The holder of
10 a license, certificate of registration, finding of suitability, or
11 other affirmative regulatory approval shall indemnify and hold
12 harmless this state, the commission, and all officers and employees
13 of this state and the commission from any and all claims which may
14 be asserted against the holder, the commission, this state, and the
15 members, officers, employees, and authorized agents of this state
16 or the commission arising from the holder's participation in the
17 video lottery system authorized under this subchapter.

18 Sec. 466.553. LIABILITY FOR CREDIT AWARDED OR DENIED;
19 PLAYER DISPUTE. (a) This state and the commission are not liable
20 for any video lottery terminal malfunction or error by a video
21 lottery retailer, video lottery manager, or video lottery terminal
22 provider that causes credit to be wrongfully awarded or denied to
23 players.

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

27 (1) if the fair market value of the prize is less than

1 \$1,000, the dispute shall be resolved in accordance with the
2 commission-approved written policies of the video lottery retailer
3 or video lottery manager and without any relief available from the
4 commission or this state; or

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

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

12 Sec. 466.554. STATE VIDEO LOTTERY ACCOUNT. (a) The
13 commission shall deposit funds received under this subchapter to
14 the state video lottery account. The state video lottery account is
15 a special account in the general revenue fund. The account consists
16 of all revenue received by this state from the operation of video
17 lottery terminals.

18 (a-1) Notwithstanding Section 466.355(b), the commission
19 may expend an amount not to exceed \$5 million from the state lottery
20 account to establish the video lottery system in accordance with
21 this chapter and from revenue deposited in the state video lottery
22 account may reimburse the state lottery account for the total
23 amount of funds expended from the state lottery account to
24 establish the video lottery system. This subsection expires
25 January 1, 2017.

26 (b) An amount specified in the General Appropriations Act
27 and not to exceed one percent of the net terminal income received by

1 this state under Section 466.555 shall be allocated to the
2 commission to defray expenses incurred in administering this
3 subchapter, including expenses incurred to operate the video
4 lottery central system.

5 Sec. 466.555. ALLOCATION OF NET TERMINAL INCOME; TRANSFER
6 OF MONEY. (a) Net terminal income derived from the operation of
7 video lottery games in this state is allocated as follows:

8 (1) 30 percent of the net terminal income generated in
9 each calendar year shall be remitted to this state by the video
10 lottery retailer or video lottery manager; and

11 (2) the remainder shall be retained by the video
12 lottery retailer or video lottery manager.

13 (b) Ten million dollars of the net terminal income received
14 by this state under Subsection (a) shall annually in equal monthly
15 installments be transferred to the Texas Racing Commission to be
16 expended solely for the treatment of compulsive gamblers and the
17 promotion of responsible gaming.

18 (c) Ten million dollars of the net terminal income received
19 by this state under Subsection (a) shall annually in equal monthly
20 installments be transferred to the criminal justice planning fund
21 for use by the criminal justice division of the governor's office to
22 promote and facilitate the prosecution of offenses under Chapter
23 47, Penal Code.

24 (d) The commission shall require a video lottery retailer or
25 video lottery manager to establish a separate electronic funds
26 transfer account for depositing money from video lottery terminal
27 operations, making payments to the commission or its designee, and

1 receiving payments from the commission or its designee.

2 (e) A video lottery retailer or video lottery manager may
3 not make payments to the commission in cash. As authorized by the
4 commission, a video lottery retailer or video lottery manager may
5 make payments to the commission by cashier's check.

6 (f) The commission at least weekly shall transfer this
7 state's share of net terminal income of a video lottery retailer or
8 video lottery manager to the commission through the electronic
9 transfer of the money.

10 (g) The commission by rule shall establish procedures for:

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

13 (2) handling money from video lottery terminal
14 operations.

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

27 (i) In the commission's sole discretion, rather than

1 disable a license holder's video lottery terminals under Subsection
2 (h), the commission may elect to impose a fine on a license holder
3 in an amount determined by the commission not to exceed \$250,000 for
4 each violation. If the license holder fails to remedy the
5 violation, including payment of any amounts assessed by or due to
6 this state, on or before the 30th day after the date the license
7 holder is notified of the violation, the commission may disable the
8 license holder's video lottery terminals or use any other means for
9 collection as provided by the penalty chart established by the
10 commission.

11 (j) A video lottery retailer or video lottery manager is
12 solely responsible for resolving any income discrepancies between
13 actual money collected and the net terminal income reported by the
14 video lottery central system. Unless an accounting discrepancy is
15 resolved in favor of the video lottery retailer or video lottery
16 manager, the commission may not make any credit adjustments. Any
17 accounting discrepancies which cannot otherwise be resolved shall
18 be resolved in favor of the commission.

19 (k) A video lottery retailer and video lottery manager shall
20 remit payment as directed by the commission if the electronic
21 transfer of money is not operational or the commission notifies the
22 license holder that other remittance is required. The license
23 holder shall report this state's share of net terminal income, and
24 remit the amount generated from the terminals during the reporting
25 period.

26 Sec. 466.556. COMMISSION EXAMINATION OF FINANCIAL RECORDS.
27 The commission may examine all accounts, bank accounts, financial

1 statements, and records in the possession or control of a person
2 licensed under this subchapter or in which the license holder has an
3 interest. The license holder must authorize and direct all third
4 parties in possession or in control of the accounts or records to
5 allow examination of any of those accounts or records by the
6 commission.

7 Sec. 466.557. FINANCIAL INFORMATION REQUIRED. (a) A video
8 lottery retailer or video lottery manager shall furnish to the
9 commission all information and bank authorizations required to
10 facilitate the timely transfer of money to the commission.

11 (b) A video lottery retailer or video lottery manager must
12 provide the commission advance notice of any proposed account
13 changes in information and bank authorizations to assure the
14 uninterrupted electronic transfer of money.

15 (c) The commission is not responsible for any interruption
16 or delay in the transfer of money. The video lottery retailer or
17 video lottery manager is responsible for any interruption or delay
18 in the transfer of money.

19 Sec. 466.558. TRANSFERS OF VIDEO LOTTERY PROCEEDS FOR
20 CERTAIN PURPOSES; RACING FACILITIES CAPITAL IMPROVEMENT ACCOUNT.

21 (a) A video lottery retailer or video lottery manager that operates
22 a video lottery terminal establishment at a horse racetrack at
23 least weekly shall transfer:

24 (1) 11 percent of the net terminal income to the Texas
25 equine development fund established at that racetrack; and

26 (2) one percent of the net terminal income to the
27 performance horse development fund.

1 (b) A video lottery retailer or video lottery manager that
2 operates a video lottery terminal establishment at a greyhound
3 racetrack shall transfer 12 percent of the net terminal income to
4 the Texas canine development fund established at that racetrack.

5 (c) A video lottery retailer or video lottery manager that
6 operates a video lottery terminal establishment at a horse
7 racetrack shall provide at least \$1 million, or the minimum
8 coverage amount required by the Texas Racing Commission, in
9 accident insurance coverage for jockeys participating in a race
10 meeting at its racetrack. The Texas Racing Commission:

11 (1) may review and approve the adequacy of the
12 coverage;

13 (2) shall annually adjust for inflation the minimum
14 coverage amount; and

15 (3) shall annually publish in the Texas Register the
16 revised minimum coverage amount.

17 (d) A video lottery retailer or video lottery manager shall
18 provide all necessary capital investments and required
19 improvements for the video lottery terminal establishment.

20 (e) A video lottery retailer or video lottery manager shall
21 make at least weekly payments to the racing facilities capital
22 improvement account in an amount equal to 0.5 percent of the net
23 terminal income unless a racing facilities agreement providing for
24 a different amount is filed with the Texas Racing Commission.

25 (f) The racing facilities capital improvement account is a
26 special escrow account held outside the state treasury and
27 administered by the Texas Racing Commission without further

1 appropriation. A transfer of money from the account requires:

2 (1) for a horse racetrack, the signatures of:

3 (A) a designated official of the horse racetrack;

4 and

5 (B) a designated representative appointed by a
6 majority of the quarter horse state breed registry, the
7 Thoroughbred state horse breed registry, and the horsemen's
8 organization; or

9 (2) for a greyhound racetrack, the signatures of:

10 (A) a designated official of the greyhound
11 racetrack; and

12 (B) a designated representative of the Texas
13 Greyhound Association.

14 (g) The Texas Racing Commission shall adopt rules to
15 administer this section. The rules must require the electronic
16 transfer of funds to the accounts described in this section.

17 (h) A matter considered by the Texas Racing Commission under
18 this section is a contested case under Chapter 2001 and requires a
19 public hearing.

20 Sec. 466.559. PAYMENTS FROM NET TERMINAL INCOME WHEN LIVE
21 RACING DOES NOT OCCUR. (a) A video lottery retailer or video
22 lottery manager shall promptly and fully make each payment or
23 transfer from the net terminal income required under this
24 subchapter on behalf of the video lottery terminal establishment at
25 the racetrack even if live racing at that racetrack is shortened,
26 canceled, or delayed for any reason.

27 (b) If a horse racetrack fails to request the minimum number

1 of required live race dates or fails to offer the minimum number of
2 required live races despite issuance of live race dates, does not
3 receive a waiver of that violation from the Texas Racing Commission
4 as provided under this subchapter, and does not have an agreement
5 with the affected state horse breed registries and horsemen's
6 organization, the applicable state horse breed registries and the
7 horsemen's organization may, in their sole discretion, transfer all
8 money to which they are entitled under this subchapter from that
9 racetrack to the respective accounts under their control at another
10 racetrack or racetracks.

11 (c) If a greyhound racetrack fails to request the minimum
12 number of required live race dates or fails to offer the minimum
13 number of required live races despite issuance of live race dates,
14 does not receive a waiver of that violation from the Texas Racing
15 Commission as provided under this subchapter, and does not have an
16 agreement with the affected officially recognized greyhound breed
17 registry, the Texas Greyhound Association may, in its sole
18 discretion, transfer all money to which the association is entitled
19 under this chapter from that racetrack to the account under its
20 control at another racetrack or racetracks.

21 Sec. 466.560. EQUINE RESEARCH FUNDING; USES OF TEXAS CANINE
22 DEVELOPMENT FUND OR TEXAS EQUINE DEVELOPMENT FUND AT EACH
23 RACETRACK. (a) The amount equal to 0.025 percent of the net
24 terminal income generated at a video lottery terminal establishment
25 at a horse racetrack shall be transferred from the Texas equine
26 development fund for that racetrack to the equine research account
27 of the Texas Agricultural Experiment Station for use in equine

1 research, including facilities development under Subchapter F,
2 Chapter 88, Education Code. The money transferred under this
3 subsection shall supplement, and may not replace, funding provided
4 under the Texas Racing Act (Article 179e, Vernon's Texas Civil
5 Statutes).

6 (b) Each video lottery retailer or video lottery manager
7 that operates a video lottery terminal establishment at a racetrack
8 shall, at least weekly, transfer to the racing facilities capital
9 improvement account from the racetrack's Texas equine development
10 fund or Texas canine development fund, as applicable, an amount
11 equal to one-half of one percent of the net terminal income unless a
12 racing facilities agreement providing for a different amount is
13 filed with the Texas Racing Commission.

14 (c) Unless an agreement between the state horse breed
15 registries and the horsemen's organization provides otherwise, and
16 after any other allocations required by this subchapter, the
17 remainder of the money deposited in the Texas equine development
18 fund at a horse racetrack must:

19 (1) be used for purses and the Texas-bred incentive
20 programs and may be used for other programs considered beneficial
21 to the equine industry, including:

22 (A) equine retirement, adoption, and retraining
23 programs;

24 (B) programs to test for banned
25 performance-enhancing equine drugs, performance-enhancing drug
26 testing research, and equipment and facilities of laboratories
27 providing those services in this state; and

1 (C) other programs to improve the working
2 environment in stable areas of racetracks; and

3 (2) be allocated as follows:

4 (A) an amount equal to 4.43 percent of the net
5 terminal income to the horsemen's organization to supplement
6 Thoroughbred racing purses;

7 (B) an amount equal to 2.385 percent of the net
8 terminal income to the horsemen's organization to supplement
9 quarter horse racing purses;

10 (C) an amount equal to 2.38 percent of the net
11 terminal income to the Thoroughbred state horse breed registry; and

12 (D) an amount equal to 1.28 percent of the net
13 terminal income to the quarter horse state horse breed registry.

14 (d) From the money allocated under Subsection (c)(2)(A),
15 under an agreement between the Texas Arabian Breeders Association
16 and the horsemen's organization, the horsemen's organization shall
17 allocate a portion of the money for purses for the Arabian horse
18 racing industry. The agreement must provide that not less than an
19 amount equal to 0.199 percent of the net terminal income be
20 allocated for Arabian horse racing purses. If an agreement is not
21 made, the horsemen's organization shall transfer to the Texas
22 Arabian horse racing industry an amount equal to 0.199 percent of
23 the net terminal income for Arabian horse racing purses.

24 (e) From the money allocated under Subsection (c)(2)(B),
25 under an agreement between the Texas Paint Horse Breeders'
26 Association and the horsemen's organization, the horsemen's
27 organization shall allocate a portion of the money for purses for

1 the paint horse racing industry. If an agreement is not made, the
2 horsemen's organization shall transfer to the paint horse racing
3 industry an amount equal to 0.072 percent of the net terminal income
4 for paint horse racing purses.

5 (f) From the money allocated under Subsection (c)(2)(C),
6 under an agreement between the Texas Arabian Breeders Association
7 and the Thoroughbred state horse breed registry, the registry shall
8 allocate a portion of the money for the Arabian horse racing
9 industry state-breed programs. The agreement must provide that not
10 less than an amount equal to 0.107 percent of the net terminal
11 income be allocated for Arabian state-breed programs. If an
12 agreement is not made, the Thoroughbred state horse breed registry
13 shall transfer to the Texas Arabian horse racing industry for
14 state-breed programs an amount equal to 0.107 percent of the net
15 terminal income.

16 (g) From the money allocated under Subsection (c)(2)(D),
17 under an agreement between the Texas Paint Horse Breeders'
18 Association and the quarter horse state horse breed registry, the
19 registry shall allocate a portion of the money for state-breed
20 programs for the paint horse racing industry. If an agreement is
21 not made, the registry shall transfer to the paint horse racing
22 industry an amount equal to 0.038 percent of the net terminal income
23 for paint horse state-breed programs.

24 (h) Following the other transfers and allocations required
25 by this subchapter, the remainder of the money deposited in the
26 Texas canine development fund at a greyhound racetrack is allocated
27 as follows:

1 (1) an amount equal to 4.75 percent of the net terminal
2 income to supplement greyhound racing purses;

3 (2) an amount equal to 4.75 percent of the net terminal
4 income to supplement accredited Texas-bred greyhound purses; and

5 (3) an amount equal to two percent of the net terminal
6 income to the Texas Greyhound Association as the state greyhound
7 breed registry.

8 (i) The Texas Racing Commission may adopt rules to
9 administer this section and shall require the electronic transfer
10 of funds to the accounts described in this section.

11 Sec. 466.561. RACING FACILITIES AGREEMENT; LIMITATION ON
12 USES OF RACING FACILITIES CAPITAL IMPROVEMENT ACCOUNT. (a) For
13 purposes of Sections 466.558 and 466.560, a racing facilities
14 agreement for a horse racetrack is valid only on approval of the
15 applicable racetrack and a majority of the quarter horse state
16 horse breed registry, the Thoroughbred state horse breed registry,
17 and the horsemen's organization.

18 (b) For purposes of Sections 466.558 and 466.560, a racing
19 facilities agreement for a greyhound racetrack is valid only on
20 approval of the racetrack and the Texas Greyhound Association.

21 (c) A racing facilities agreement filed under Section
22 466.558 or 466.560 remains in effect until it expires on its own
23 terms or until it is superseded by a subsequent racing facilities
24 agreement for the same racetrack.

25 (d) Unless a racing facilities agreement provides
26 otherwise, the money in the racing facilities capital improvement
27 account may be spent only for the maintenance and improvement of

1 pari-mutuel racing facilities.

2 Sec. 466.562. USES OF PERFORMANCE HORSE DEVELOPMENT FUND.

3 (a) In this section, "performance and recreational horses" means
4 horses bred or trained for public competition and exhibition or
5 recreational use in all legally permitted equine activities other
6 than horse racing at racetracks.

7 (b) Money in the performance horse development fund may be
8 spent only for:

9 (1) the development of the horse agricultural industry
10 in this state through efforts intended to attract, retain, promote,
11 and encourage the breeding, raising, training, and exhibition of
12 performance and recreational horses in this state; and

13 (2) events and programs conducted in this state.

14 (c) Money from the performance horse development fund is
15 allocated as follows:

16 (1) 40 percent to the American Quarter Horse
17 Association for its sanctioned events and programs;

18 (2) 20 percent to the National Cutting Horse
19 Association for its sanctioned events and programs;

20 (3) 20 percent to the American Paint Horse Association
21 for its sanctioned events and programs; and

22 (4) 20 percent to the Department of Agriculture to
23 promote the equine agricultural industry in this state.

24 (d) Subject to Subsection (e), money transferred to an
25 association or agency from the performance horse development fund
26 may be used for:

27 (1) purse supplements or additional money for

1 performance and recreational horses events conducted in this state;

2 (2) the establishment of an accredited Texas Bred
3 Program for breeding of performance and recreational horses;

4 (3) the marketing and promotion of performance and
5 recreational horses activities and events in this state; and

6 (4) scholarship programs.

7 (e) Money may be transferred under Subsection (c)(4) only to
8 organizations of the equine industry in this state that are not
9 receiving money for events and programs under Subsection (c)(1),
10 (2), or (3).

11 (f) Except as otherwise provided by law, all money paid to
12 the Department of Agriculture is subject to Subchapter F, Chapter
13 404.

14 Sec. 466.563. LIABILITY OF VIDEO LOTTERY RETAILER AND VIDEO
15 LOTTERY MANAGER. (a) A video lottery retailer, video lottery
16 manager, or both, are jointly and severally liable to the
17 commission for the state's share of net terminal income.

18 (b) Net terminal income received by the video lottery
19 retailer or video lottery manager is held in trust for the benefit
20 of this state before delivery of the state's share to the commission
21 or electronic transfer to the state treasury, and the video lottery
22 retailer or video lottery manager, or both, are jointly and
23 severally liable to the commission for the full amount of the money
24 held in trust.

25 (c) If the video lottery retailer or video lottery manager
26 is not an individual, each officer, director, or owner of the video
27 lottery retailer or video lottery manager is personally liable to

1 the commission for the full amount of the money held in trust,
2 except that shareholders of a publicly held corporation shall be
3 liable in an amount not to exceed the value of their equity
4 investment.

5 (d) The money derived from video lottery proceeds that is
6 required under this subchapter to be transferred to the Texas
7 equine development fund or the performance horse development fund
8 is held in trust by the video lottery retailer or video lottery
9 manager, as applicable, for the benefit of the persons designated
10 in this subchapter to receive money from the funds. On Wednesday of
11 each week, the retailer or manager shall transfer the money accrued
12 in the funds during the week ending on the preceding Saturday to the
13 depository accounts maintained by the persons entitled to money
14 from the funds under this subchapter. If the retailer or manager
15 fails to transfer the money as required under this subsection, a
16 person entitled to money from the funds under this subchapter may
17 file a civil action against the retailer or manager for relief,
18 including damages and specific performance.

19 Sec. 466.564. PRIZE PAYMENT AND REDEMPTION. (a) Payment of
20 prizes is the sole and exclusive responsibility of the video
21 lottery retailer or video lottery manager. A prize may not be paid
22 by the commission or this state except as otherwise authorized.

23 (b) Nothing in this subchapter limits the ability of a video
24 lottery retailer or video lottery manager to provide promotional
25 prizes in addition to prize payouts regulated by the commission.

26 (c) A video lottery ticket must be redeemed not later than
27 the 180th day following the date of issuance. If a claim is not made

1 for prize money on or before the 180th day after the date on which
2 the video lottery ticket was issued, the prize money becomes the
3 property of the video lottery terminal establishment.

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

8 Sec. 466.565. REVOCATION OF LICENSE, CERTIFICATE OF
9 REGISTRATION, SUITABILITY FINDING, OR OTHER REGULATORY APPROVAL.

10 (a) The commission shall revoke or suspend a license, certificate
11 of registration, finding of suitability, or other affirmative
12 regulatory approval issued under this subchapter if the holder at
13 any time fails to meet the eligibility requirements set forth in
14 this subchapter.

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

25 Sec. 466.566. HEARING FOR REVOCATION OR SUSPENSION. (a)
26 Before the commission revokes or suspends a video lottery terminal
27 provider's registration or approval or video lottery retailer's or

1 video lottery manager's license, or imposes monetary penalties for
2 a violation of this subchapter, the commission shall provide
3 written notification to the license, certificate of registration,
4 or approval holder of the revocation, the period of suspension, or
5 the monetary penalty. The notice shall include:

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

8 (2) each reason for the revocation, suspension, or
9 penalty;

10 (3) an explanation of the evidence supporting the
11 reasons;

12 (4) an opportunity to present the holder's position in
13 response on or before the 15th day after the effective date of the
14 revocation; and

15 (5) a statement explaining the holder's right to an
16 administrative hearing to determine whether the revocation,
17 suspension, or penalty is warranted.

18 (b) The commission shall adopt rules to implement this
19 section.

20 Sec. 466.567. ABSOLUTE PRIVILEGE OF REQUIRED
21 COMMUNICATIONS AND DOCUMENTS. (a) Any communication, document, or
22 record of a video lottery central system provider, video lottery
23 terminal provider, video lottery retailer, or video lottery
24 manager, an applicant, or a holder of a license, certificate of
25 registration, finding of suitability, or other affirmative
26 regulatory approval that is made or transmitted to the commission
27 or any of its employees to comply with any law, including a rule of

1 the commission, to comply with a subpoena issued by the commission,
2 or to assist the commission or its designee in the performance of
3 their respective duties is absolutely privileged, does not impose
4 liability for defamation, and is not a ground for recovery in any
5 civil action.

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

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

16 Sec. 466.568. INTELLECTUAL PROPERTY RIGHTS OF COMMISSION.
17 The legislature finds and declares that the commission has the
18 right to establish ownership of intellectual property rights for
19 all lottery products, including video lottery terminals and related
20 video lottery equipment.

21 SECTION 30. Section 467.001, Government Code, is amended by
22 amending Subdivision (9) and adding Subdivision (12) to read as
23 follows:

24 (9) "Person that has a significant financial interest
25 in the lottery" means:

26 (A) a person or a board member, officer, trustee,
27 or general partner of a person that manufactures, distributes,

1 sells, or produces lottery equipment, video lottery equipment,
2 video lottery games, video lottery central systems, supplies,
3 services, or advertising;

4 (B) an employee of a video lottery terminal
5 provider, video lottery central system provider, or person that
6 manufactures, distributes, sells, or produces lottery equipment,
7 supplies, services, or advertising or video lottery equipment or
8 games and that employee is directly involved in the manufacturing,
9 distribution, selling, or production of lottery equipment,
10 supplies, services, or advertising or video lottery equipment or
11 games;

12 (C) a person or a board member, officer, trustee,
13 or general partner of a person that has made a bid to operate the
14 lottery in the preceding two years or that intends to make a bid to
15 operate the lottery or an employee of the person if the employee is
16 directly involved in making the bid; or

17 (D) a sales agent, video lottery retailer, video
18 lottery manager, video lottery terminal provider, or video lottery
19 central system provider.

20 (12) "Video lottery central system," "video lottery
21 equipment," "video lottery game," "video lottery manager," "video
22 lottery retailer," and "video lottery terminal provider" have the
23 meanings assigned by Section 466.002.

24 SECTION 31. Section 467.021(a), Government Code, is amended
25 to read as follows:

26 (a) The commission is composed of:

27 (1) three voting members appointed by the governor

1 with the advice and consent of the senate; and
2 (2) the comptroller, who serves as an ex officio,
3 nonvoting member.

4 SECTION 32. Section 467.031, Government Code, is amended to
5 read as follows:

6 Sec. 467.031. DIVISIONS; DIRECTOR; CONTRACT. The
7 commission shall establish separate divisions to oversee bingo and
8 the state lottery. The commission shall employ a director to
9 oversee video lottery and shall enter into an intra-agency
10 agreement with the Texas Racing Commission for the Texas Racing
11 Commission to be responsible for performing the inspections and
12 regulatory functions specified in the agreement at racetracks on
13 behalf of the Texas Lottery Commission.

14 SECTION 33. Section 467.035(a), Government Code, is amended
15 to read as follows:

16 (a) The commission may not employ or continue to employ a
17 person who owns a financial interest in:

18 (1) a bingo commercial lessor, bingo distributor, or
19 bingo manufacturer; or

20 (2) a lottery sales agency, ~~or~~ a lottery operator, a
21 video lottery retailer, a video lottery manager, a video lottery
22 terminal provider, a video lottery central system provider, or a
23 manufacturer of video lottery games.

24 SECTION 34. Section 467.108, Government Code, is amended to
25 read as follows:

26 Sec. 467.108. REPRESENTATION BY FORMER OFFICER OR EMPLOYEE.

27 (a) A former commission member, former executive director, or

1 former director may not:

2 (1) [~~for compensation,~~] represent a person, either
3 with or without compensation, [~~that has made or intends to make a~~
4 ~~bid to operate the lottery]~~ before the commission before the fifth
5 [~~second~~] anniversary of the date that the person's service in
6 office or employment with the commission ceases;

7 (2) represent any person or receive compensation for
8 services rendered on behalf of any person regarding a particular
9 matter in which the former officer or employee participated during
10 the period of service or employment with the commission, either
11 through personal involvement or because the matter was within the
12 scope of the officer's or employee's official responsibility; or

13 (3) [~~for compensation]~~ communicate on behalf of any
14 person, whether compensated or not compensated, directly with a
15 member of the legislative branch to influence legislation on behalf
16 of a person that has any [~~a significant financial]~~ interest in the
17 lottery, before the fifth [~~second~~] anniversary of the date that the
18 person's service in office or employment with the commission
19 ceases.

20 (b) A person commits an offense if the person violates this
21 section. An offense under this section is a felony of the third
22 degree [~~Class A misdemeanor~~].

23 SECTION 35. Section 411.108, Government Code, is amended by
24 adding Subsection (d) to read as follows:

25 (d) The Texas Lottery Commission may obtain from the
26 department, subject to an interagency agreement entered into under
27 Section 466.020(d) or 466.206, criminal history record information

1 maintained by the department that relates to any natural person,
2 corporation, association, trust, partnership, limited partnership,
3 joint venture, government, subsidiary, or other entity, regardless
4 of its form, structure, or nature that the commission has the
5 authority to investigate under Chapter 466 related to the
6 commission's operation and oversight of video lottery. Criminal
7 history record information obtained by the commission under this
8 subsection may be released or disclosed only as provided in
9 Sections 466.022(d) and 466.206.

10 SECTION 36. Section 47.06(e), Penal Code, is amended to
11 read as follows:

12 (e) An offense under this section is a felony of the third
13 degree [~~Class A misdemeanor~~].

14 SECTION 37. Section 47.09, Penal Code, is amended by
15 amending Subsection (a) and adding Subsection (c) to read as
16 follows:

17 (a) It is a defense to prosecution under this chapter that
18 the conduct:

19 (1) was authorized under:

20 (A) Chapter 2001, Occupations Code;

21 (B) Chapter 2002, Occupations Code; or

22 (C) the Texas Racing Act (Article 179e, Vernon's
23 Texas Civil Statutes);

24 (2) consisted entirely of participation in gambling or
25 other gaming activity that:

26 (A) is or may be permitted under the Indian
27 Gaming Regulatory Act (Pub. L. No. 100-497), without regard to

1 whether the gambling or gaming activity is conducted by an Indian
2 tribe to which that Act applies; and

3 (B) is conducted:

4 (i) by an Indian tribe or tribal
5 organization that was included on the January 30, 1998, list of
6 recognized Indian tribes by the United States secretary of the
7 interior as required under 25 U.S.C. Section 479a-1; and

8 (ii) on premises designated by the tribe or
9 tribal organization for that gambling or other gaming activity on
10 land that was held in trust or recognized as tribal land of that
11 tribe or tribal organization by the federal government on January
12 1, 1998;

13 (3) was a necessary incident to activity described by
14 Subdivision (2);

15 (4) consisted entirely of participation in the state
16 lottery, including the video lottery system, authorized by Chapter
17 466, Government Code; or

18 (5) [~~3~~] was a necessary incident to the operation of
19 the state lottery, including the video lottery system, and was
20 directly or indirectly authorized by:

21 (A) Chapter 466, Government Code;

22 (B) the lottery division of the Texas Lottery
23 Commission;

24 (C) the Texas Lottery Commission; or

25 (D) the director of the lottery division of the
26 Texas Lottery Commission.

27 (c) Subsection (a)(3) applies to a person manufacturing,

1 distributing, possessing, or operating a gambling device with the
2 authorization of the Texas Lottery Commission under Subchapter K,
3 Chapter 466, Government Code.

4 SECTION 38. Chapter 47, Penal Code, is amended by adding
5 Section 47.095 to read as follows:

6 Sec. 47.095. INTERSTATE OR FOREIGN COMMERCE DEFENSE. It is
7 a defense to prosecution under this chapter that a person sells,
8 leases, transports, possesses, stores, or manufactures a gambling
9 device with the authorization of the Texas Lottery Commission under
10 Subchapter K, Chapter 466, Government Code, or on behalf of an
11 Indian tribe in connection with activity described by Section
12 47.09(a)(2) for transportation in interstate or foreign commerce.

13 SECTION 39. (a) As soon as practicable after the
14 constitutional amendment authorizing a state video lottery system
15 to operate video lottery games at certain horse and greyhound
16 racetracks and providing that federally recognized Indian tribes
17 are not prohibited from conducting games of chance on certain
18 Indian lands proposed by the 83rd Legislature, Regular Session,
19 2013, is approved by the voters and becomes effective, the Texas
20 Lottery Commission and the Texas Racing Commission shall adopt the
21 rules necessary to implement video lottery in accordance with
22 Subchapter K, Chapter 466, Government Code, as added by this Act.

23 (b) Before the proposed constitutional amendment is
24 submitted to the voters, the Texas Lottery Commission may expend
25 money from the commission's appropriation for the 2014-2015 state
26 fiscal biennium for purposes of conducting pre-implementation
27 activities to establish the state video lottery system in

1 accordance with Subchapter K, Chapter 466, Government Code, as
2 added by this Act. Notwithstanding Section 466.355, Government
3 Code, the money authorized to be expended under this section may be
4 withdrawn from the state lottery account and considered a part of
5 the transfer of funds from the state lottery account authorized
6 under Section 466.554, Government Code, as added by this Act, to
7 fund the establishment of the state video lottery system.

8 (c) If the proposed constitutional amendment is approved by
9 the voters, the Texas Lottery Commission and the Texas Racing
10 Commission shall adopt initial rules for purposes of implementing
11 video lottery in accordance with Chapter 466, Government Code, as
12 amended by this Act, not later than December 1, 2013. Chapter 2001,
13 Government Code, does not apply to the adoption of those rules.
14 Rules adopted under this section shall expire not later than
15 September 1, 2016.

16 (d) Notwithstanding Chapter 466, Government Code, as
17 amended by this Act, the Texas Lottery Commission may not issue a
18 video lottery retailer or video lottery manager license to an
19 applicant under that chapter unless the applicant, on or before
20 September 1, 2013, pays to the commission an initial application
21 fee in the following amount:

22 (1) for an applicant who holds a class 1 racetrack
23 license, \$25 million; or

24 (2) for an applicant who holds a class 2 or class 3
25 horse racetrack license or a greyhound racetrack license, \$15
26 million.

27 (e) If the proposed constitutional amendment is not

1 approved by the voters, the Texas Lottery Commission shall
2 reimburse the full amount of the initial application fee paid by an
3 applicant under Subsection (d) of this section not later than
4 December 1, 2013.

5 SECTION 40. The change in law made by this Act applies only
6 to an offense committed on or after the effective date of this Act.
7 An offense committed before the effective date of this Act is
8 covered by the law in effect on the date the offense was committed,
9 and the former law is continued in effect for that purpose. For
10 purposes of this section, an offense was committed before the
11 effective date of this Act if any element of the offense was
12 committed before that date.

13 SECTION 41. Sections 1 through 38 and 40 of this Act take
14 effect on the date the constitutional amendment authorizing a state
15 video lottery system to operate video lottery games at certain
16 horse and greyhound racetracks and providing that federally
17 recognized Indian tribes are not prohibited from conducting games
18 of chance on certain Indian lands proposed by the 83rd Legislature,
19 Regular Session, 2013, becomes effective. Section 39 of this Act
20 and this section take effect immediately if this Act receives a vote
21 of two-thirds of all the members elected to each house, as provided
22 by Section 39, Article III, Texas Constitution. If this Act does
23 not receive the vote necessary for immediate effect, Section 39 of
24 this Act and this section take effect September 1, 2013.