

By: Patterson

H.B. No. 3980

A BILL TO BE ENTITLED

AN ACT

relating to the regulation of fantasy contests; requiring an occupational license; imposing an administrative penalty; authorizing fees; imposing a tax.

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

SECTION 1. Subtitle B, Title 13, Occupations Code, is amended by adding Chapter 2053 to read as follows:

CHAPTER 2053. FANTASY CONTESTS

SUBCHAPTER A. GENERAL PROVISIONS

Sec. 2053.001. DEFINITIONS. In this chapter:

(1) "Adjusted gross fantasy contest receipts" means an amount equal to the sum of all entry fees a fantasy contest operator collects from participants less the sum of all prizes paid to participants multiplied by the location percentage.

(2) "Athlete" means a professional or amateur competitor in an actual sporting event that is:

(A) regulated by a governing body; and

(B) held between competitors who play individually or as teams.

(3) "Commission" means the Texas Lottery Commission.

(4) "Entry fee" means the amount of cash or cash equivalent a participant pays in advance to participate in a fantasy contest offered by a fantasy contest operator.

(5) "Fantasy contest" means an online fantasy or

1 simulated game or a contest of skill:

2 (A) that charges an entry fee; and

3 (B) in which:

4 (i) the value of all prizes offered to a  
5 winning participant are established and disclosed to the  
6 participant in advance of the contest;

7 (ii) all winning outcomes reflect the  
8 participant's relative knowledge and skill;

9 (iii) the participant assembles, owns, or  
10 manages a fictional roster of actual athletes;

11 (iv) the participant competes for prizes a  
12 fantasy contest operator awards based on terms the fantasy contest  
13 operator publishes and discloses to the participant in advance of  
14 the contest;

15 (v) participants compete against each other  
16 or a single participant competes against a target score the fantasy  
17 contest operator establishes;

18 (vi) a winning outcome is determined solely  
19 by clearly established scoring criteria based on statistical  
20 results of athlete performance, including a fantasy score; and

21 (vii) a winning outcome is not based on the  
22 score, the point spread, or any performance of one actual team or a  
23 combination of teams or solely on one performance of an individual  
24 athlete in one actual sporting event.

25 (6) "Fantasy contest operator" means a person who  
26 offers fantasy contests to the public. The term does not include an  
27 Internet service or mobile data service provider who digitally

transfers general information that may include a fantasy contest.

(7) "Location percentage" means the percentage rounded to the nearest 0.1 percent of the total amount of entry fees a fantasy contest operator collects from participants located in this state, divided by the total amount of entry fees the operator collects from all participants in the fantasy contest.

(8) "Participant" means an individual who participates in a fantasy contest offered by a fantasy contest operator. The term does not include an operator who only:

(A) sets house rules for a fantasy contest;

(B) assigns a salary or target score to any eligible athlete;

(C) accepts an entry fee from an individual who participates in a fantasy contest; or

(D) awards or disburses prizes in accordance with this chapter.

(9) "Prohibited participant" means:

(A) an individual who has self-excluded from participation in fantasy contests under this chapter; or

(B) an athlete, coach, referee, trainer, or staff member of a sports team, if a fantasy contest entry includes an athlete selection from a sporting event overseen by the same sports governing body that oversees the athlete, coach, referee, trainer, or member.

(10) "Sporting event" means an actual athletic event, an organized video game competition, or other event the commission approves that is regulated by a sports governing body and is held as

a competition between athletes who play individually or as teams.

(11) "Sports governing body" means the organization that prescribes rules and enforces codes of conduct for a sporting event and the athletes competing in the sporting event.

Sec. 2053.002. FANTASY CONTEST NOT GAMBLING. A fantasy contest conducted under this chapter does not constitute gambling for any purpose, including under Chapter 47, Penal Code.

Sec. 2053.003. CONSTRUCTION OF CHAPTER. (a) This chapter shall be construed liberally to promote the general welfare of the public and the integrity of the fantasy contest industry.

(b) The commission may not:

(1) adopt rules limiting or regulating:

(A) the house rules or administration of a single fantasy contest;

(B) the statistical composition of a fantasy contest; or

(C) the digital platform of a fantasy contest operator; or

(2) in any way limit or restrict the types of fantasy contests allowed under this chapter by labelling the contest as gambling.

(c) Notwithstanding any other law, the operation of a fantasy contest is lawful only when conducted in accordance with this chapter and rules adopted under this chapter.

#### SUBCHAPTER B. COMMISSION POWERS AND DUTIES

Sec. 2053.051. REGULATION OF FANTASY CONTEST OPERATORS. The commission shall regulate the conduct of fantasy contest

operators under this chapter.

Sec. 2053.052. GENERAL POWERS. The commission may exercise the powers necessary to enforce this chapter and rules adopted under this chapter.

Sec. 2053.053. RULES. (a) The commission shall adopt the rules the commission considers necessary for the implementation, administration, and enforcement of this chapter.

(b) Rules the commission proposed under this chapter may be adopted as emergency rules under Section 2001.034, Government Code.

Sec. 2053.054. REVENUE COLLECTION. The commission shall assess and collect each fee or tax imposed under this chapter.

Sec. 2053.055. ENFORCEMENT. (a) The commission shall require fantasy contest operators to implement procedures to prevent fraud, abuse, and money laundering in the operation of fantasy contests.

(b) The commission shall verify each fantasy contest operator implements:

(1) technology and procedures to prevent participation in a fantasy contest by an individual who is under 18 years of age;

(2) identity verification procedures, including as necessary the use of a reputable independent third-party in the business of verifying individuals' personally identifiable information to detect potential prohibited participants;

(3) mechanisms on the operator's platform designed to detect and prevent unauthorized accounts, fraud, money laundering, and collusion; and

1           (4) geolocation technology to verify a participant  
2 does not enter a fantasy contest from a restricted jurisdiction, as  
3 determined by commission rule.

4           (c) The commission may cooperate with an investigation  
5 conducted by a law enforcement agency, including providing and  
6 facilitating the provision of account-level entry and  
7 participation information.

8           Sec. 2053.056. COMPULSIVE AND PROBLEM GAMING STANDARDS.  
9 The commission by rule shall establish compulsive and problem  
10 gaming standards consistent with this chapter for fantasy contest  
11 operators.

12           SUBCHAPTER C. FANTASY CONTEST OPERATOR LICENSE

13           Sec. 2053.101. FANTASY CONTEST OPERATOR LICENSE REQUIRED.  
14 A person may not offer or operate a fantasy contest in this state  
15 unless the person holds a fantasy contest operator license issued  
16 by the commission.

17           Sec. 2053.102. LICENSE APPLICATION. (a) An applicant for a  
18 fantasy contest operator license shall submit an application in  
19 accordance with commission rules.

20           (b) An application for a fantasy contest operator license  
21 must include:

- 22               (1) the applicant's:  
23                   (A) name;  
24                   (B) principal place of business;  
25                   (C) contact information; and  
26                   (D) social security number or any applicable  
27 federal tax identification number;

1           (2) the identity of each individual who has an  
2 ownership interest of at least 10 percent in the applicant or in  
3 shares of the applicant;

4           (3) criminal history record information of the  
5 applicant;

6           (4) any ownership interest in a fantasy contest  
7 operator or similar entity in any jurisdiction that is held by a  
8 director, officer, key employee, or individual owner of at least 10  
9 percent of the applicant;

10           (5) the identity of any business, including a business  
11 in the jurisdiction where the business is incorporated or  
12 registered, in which the applicant or a director, officer, key  
13 employee, or individual owner of at least 10 percent of the  
14 applicant holds an equity interest of at least five percent;

15           (6) a statement on whether the applicant or a  
16 director, officer, key employee, or individual owner of at least 10  
17 percent of the applicant has ever applied for or been granted any  
18 license, registration, or certificate issued by a licensing  
19 authority in this state or any other jurisdiction for a gaming  
20 activity;

21           (7) a statement on whether the applicant or a  
22 director, officer, key employee, or individual owner of at least 10  
23 percent of the applicant has filed or been served with a complaint  
24 or other notice filed by a governmental entity regarding  
25 delinquency in payment of or dispute over filings concerning the  
26 payment of any tax required under federal, state, or local law,  
27 including the amount of tax, the type of tax, the taxing agency, and

1 the period applicable to the complaint or notice; and

2 (8) information the commission determines is  
3 sufficient to demonstrate the applicant satisfies the requirements  
4 of this chapter and rules adopted under this chapter.

5 (c) On commission request, an applicant for a fantasy  
6 contest operator license that is a business entity shall include in  
7 the application the criminal history record information of an  
8 individual who is:

9 (1) a director, officer, or key employee of the  
10 applicant; or

11 (2) any individual with an ownership interest of 10  
12 percent or more in the applicant.

13 (d) The commission by rule may establish additional  
14 qualifications and requirements for a fantasy contest operator  
15 license applicant or license holder as necessary to preserve the  
16 integrity and security of fantasy contests in this state and to  
17 promote and maintain a competitive fantasy contest market.

18 Sec. 2053.103. CRIMINAL HISTORY RECORD INFORMATION;  
19 FINGERPRINTS. (a) An applicant for a fantasy contest operator  
20 license shall submit fingerprints in accordance with this section  
21 to the commission or to the Department of Public Safety, as  
22 determined by commission rule, for the purpose of obtaining  
23 criminal history record information from the Department of Public  
24 Safety and the Federal Bureau of Investigation.

25 (b) Fingerprints must be furnished under Subsection (a) by  
26 the applicant's:

27 (1) owners;



1           (2) officers;

2           (3) directors for a corporation applicant;

3           (4) managers and members for a limited liability  
4 company applicant; and

5           (5) partners for a partnership applicant.

6           (c) Each set of fingerprints submitted under Subsection (a)  
7 must be accompanied by an authorization signed by the fingerprinted  
8 individual for the release of information by the Department of  
9 Public Safety and the Federal Bureau of Investigation.

10          (d) Notwithstanding Subsection (a), an applicant or an  
11 individual described by Subsection (b) who has submitted to a check  
12 of national criminal history record information in any state in the  
13 preceding year before submitting an application under this chapter  
14 is not required to submit to another check of criminal history  
15 record information if the applicant or individual:

16           (1) provides the results of the previous check of  
17 criminal history record information to the commission; and

18           (2) affirms no material change has occurred in the  
19 individual's criminal history record information since the check  
20 was conducted.

21          Sec. 2053.104. INITIAL LICENSE FEE. (a) Except as provided  
22 by Subsection (b), a fantasy contest operator operating in this  
23 state at any time during the preceding year shall remit to the  
24 commission an initial license fee of:

25           (1) an amount equal to eight percent of the operator's  
26 adjusted gross fantasy contest receipts from the preceding calendar  
27 year; or

1           (2) \$500,000.

2           (b) A fantasy contest operator that has not operated in this  
3 state at any time during the preceding year shall remit to the  
4 commission an initial license fee of \$5,000. A fantasy contest  
5 operator that pays the initial license fee under this subsection  
6 shall remit to the commission a supplemental license fee of the  
7 lesser of:

8           (1) an amount equal to 10 percent of the operator's  
9 adjusted gross fantasy contest receipts for the first year of  
10 licensure, beginning on the date of licensure, less the amount of  
11 the initial license fee; or

12           (2) \$5,000.

13           Sec. 2053.105. ISSUANCE OR DENIAL OF LICENSE. (a) On  
14 receipt of a completed application for a fantasy contest operator  
15 license and the required fee, the commission shall conduct the  
16 necessary background investigation to determine whether the  
17 applicant satisfies the qualifications for the license.

18           (b) On completion of the necessary background  
19 investigation, the commission shall issue a license or deny the  
20 application. The commission may not issue a license to an applicant  
21 convicted of a disqualifying offense.

22           (c) If the application is denied, the commission shall  
23 forward a statement of the grounds for denial to the applicant and  
24 all other documents on which the commission relied, to the extent  
25 allowed by law.

26           Sec. 2053.106. LICENSE TERM. (a) A license issued under  
27 this chapter expires on the fourth anniversary of the date of

1 issuance.

2 (b) The commission may not require the holder of a fantasy  
3 contest operator license to surrender or terminate the license  
4 before the expiration date of the license solely because of rules  
5 amended under this chapter.

6 Sec. 2053.107. LICENSE RENEWAL. (a) The commission shall  
7 establish a process for renewing a fantasy contest operator license  
8 issued under this chapter, including the assessment of a renewal  
9 fee in an amount equal to one percent of the license holder's  
10 adjusted gross fantasy contest receipts for the preceding four  
11 years.

12 (b) The commission may require an applicant for renewal of a  
13 fantasy contest operator license to submit to additional criminal  
14 history record information checks as described by Section 2053.103.

15 (c) The commission may grant an extension of time for the  
16 renewal of a fantasy contest operator license on receipt of a  
17 written request submitted by the license holder.

18 (d) A fantasy contest operator license holder that allows  
19 the license to lapse without requesting an extension of time to file  
20 for renewal of the license must submit an initial license  
21 application.

22 Sec. 2053.108. APPLICANT OPERATION DURING LICENSE  
23 APPLICATION PERIOD. (a) A fantasy contest operator that submits an  
24 application for a license or license renewal under this chapter may  
25 operate during the application period unless the commission:

26 (1) has reasonable cause to believe the fantasy  
27 contest operator is or may be in violation of this chapter or rules

1 adopted under this chapter; and

2 (2) requires the fantasy contest operator to suspend  
3 operation of any fantasy contest until the license or license  
4 renewal is issued.

5 (b) Notwithstanding Subsection (a), a fantasy contest  
6 operator that offered fantasy contests to individuals located in  
7 this state before September 1, 2025, may continue to offer contests  
8 to those individuals until the commission approves or denies the  
9 fantasy contest operator's application under this chapter if the  
10 fantasy contest operator files the application with the commission  
11 not later than the 90th day after the date the commission adopts  
12 rules to implement this chapter. This subsection expires September  
13 1, 2029.

14 Sec. 2053.109. INDEPENDENT AUDIT. (a) Subject to  
15 Subsection (b), an applicant for an initial or renewal fantasy  
16 contest operator license shall:

17 (1) contract with a certified public accountant to  
18 conduct an independent audit consistent with generally accepted  
19 accounting principles;

20 (2) annually contract with a testing laboratory,  
21 certified public accountant, or another professional service  
22 provider the commission recognizes to verify in a written report  
23 compliance with this chapter and rules adopted under this chapter;  
24 and

25 (3) submit to the commission a copy of the audit report  
26 and a copy of the compliance report provided by the entity with  
27 which the applicant contracted under Subdivision (2).

1       (b) An applicant for an initial fantasy contest operator  
2 license under this chapter is not required to submit an audit report  
3 and a compliance report until after the second anniversary of the  
4 initial license issuance.

5               SUBCHAPTER D. OPERATION OF FANTASY CONTEST

6       Sec. 2053.151. MINIMUM AGE OF PARTICIPANT. An individual  
7 may not participate in a fantasy contest under this chapter if the  
8 individual is younger than 18 years of age.

9       Sec. 2053.152. LOCATION OF PARTICIPANT. A fantasy contest  
10 operator license holder may only accept an entry from a participant  
11 physically located in this state. A fantasy contest operator must  
12 use a geolocation system to ensure each participant is physically  
13 present in this state when submitting a fantasy contest entry  
14 unless otherwise authorized by the commission.

15       Sec. 2053.153. FANTASY CONTEST OPERATOR TAX. (a) For the  
16 privilege of holding a license to operate fantasy contests under  
17 this chapter, the commission shall impose and collect a tax at a  
18 rate equal to 10 percent of the fantasy contest operator's adjusted  
19 gross fantasy contest receipts.

20       (b) The accrual method of accounting shall be used to  
21 calculate the amount of tax due. The fantasy contest operator shall  
22 submit to the commission on or before the last day of each calendar  
23 month:

24               (1) a return indicating:

25                       (A) the amount of tax due under this section for  
26 the preceding calendar month; and

27                       (B) any other information the commission by rule

requires; and

(2) payment of the tax due under this section.

Sec. 2053.154. COMPULSIVE GAMING; VOLUNTARY  
SELF-EXCLUSION. (a) Each fantasy contest operator licensed under  
this chapter shall include a statement regarding assistance with  
gambling problems on:

(1) the license holder's portal, Internet website, or  
computer or mobile application; and

(2) all of the license holder's marketing materials  
and advertisements.

(b) The commission shall maintain a voluntary  
self-exclusion list of individuals who request to be prohibited  
from establishing a fantasy contest account with a fantasy contest  
operator under this chapter.

(c) A fantasy contest operator may not pay a prize to an  
individual included on the commission's self-exclusion list. A  
prize won by an individual on the self-exclusion list is forfeited.  
The fantasy contest operator shall donate any forfeited prize to a  
problem gaming program, as identified and directed by the  
commission, not later than the 25th day of the month following the  
end of each quarter.

(d) If a self-excluded individual participates in a fantasy  
contest, the fantasy contest operator shall report to the  
commission:

(1) the name of the self-excluded individual;

(2) the date of the self-excluded individual's  
participation in the fantasy contest;

1           (3) the amount or value of any prizes forfeited by the  
2 self-excluded individual; and

3           (4) any other action taken by the fantasy contest  
4 operator.

5           (e) A fantasy contest operator shall develop and maintain a  
6 program to mitigate and curtail compulsive play, which may be  
7 implemented in conjunction with the commission.

8           SUBCHAPTER E. REPORTING, INVESTIGATION, AND ENFORCEMENT

9           Sec. 2053.201. REQUIRED REPORTING BY LICENSE HOLDER. The  
10 holder of a fantasy contest operator license shall promptly notify  
11 the commission of any information relating to:

12           (1) a confirmed breach of the relevant sports  
13 governing body's internal regulations and codes of conduct  
14 regarding participation in fantasy contests that is provided to the  
15 fantasy contest operator;

16           (2) conduct corrupting any outcome related to a  
17 sporting event for financial gain purposes, including match fixing;  
18 and

19           (3) confirmed illegal activities, including use of  
20 money derived from illegal activity, entries to conceal or launder  
21 money derived from illegal activity, multi-accounting, and use of  
22 false identification.

23           Sec. 2053.202. COMMISSION INVESTIGATION AND REPORTING OF  
24 PROHIBITED CONDUCT. (a) The commission shall investigate all  
25 reasonable allegations of prohibited conduct and refer any credible  
26 allegations to an appropriate law enforcement agency.

27           (b) The identity of any person reporting prohibited conduct

1 is confidential unless:

2 (1) the person authorizes disclosure of the person's  
3 identity; or

4 (2) the allegation of prohibited conduct is referred  
5 to a law enforcement agency.

6 (c) If the commission receives a complaint of prohibited  
7 conduct by an athlete, the commission in accordance with commission  
8 rules shall notify the appropriate sports governing body of the  
9 athlete to review the complaint.

10 (d) The commission shall adopt rules governing  
11 investigations of prohibited conduct and referrals to law  
12 enforcement agencies.

13 Sec. 2053.203. LICENSE HOLDER COOPERATION WITH  
14 INVESTIGATION. A fantasy contest operator license holder may  
15 cooperate with investigations conducted by law enforcement  
16 agencies, including providing and facilitating the provision of  
17 account-level entry and participation information.

18 Sec. 2053.204. ADMINISTRATIVE PENALTY. (a) The commission  
19 may impose an administrative penalty on a person licensed under  
20 this chapter who violates this chapter or a rule adopted under this  
21 chapter.

22 (b) The amount of the penalty may not exceed \$5,000, and  
23 each day a violation continues or occurs is a separate violation for  
24 the purpose of imposing a penalty. The amount shall be based on:

25 (1) the seriousness of the violation, including the  
26 nature, circumstances, extent, and gravity of the violation;

27 (2) the economic harm caused by the violation;



- (3) the history of previous violations;
- (4) the amount necessary to deter a future violation;
- (5) efforts to correct the violation; and
- (6) any other matter that justice may require.

(c) The enforcement of the penalty may be stayed during the time the order is under judicial review if the person pays the penalty to the clerk of the court or files a supersedeas bond with the court in the amount of the penalty. A person who cannot afford to pay the penalty or file the bond may stay the enforcement by filing an affidavit in the manner required by the Texas Rules of Civil Procedure for a party who cannot afford to file security for costs, subject to the right of the commission to contest the affidavit as provided by those rules.

(d) The attorney general may sue to collect the penalty.

(e) A proceeding to impose the penalty is considered to be a contested case under Chapter 2001, Government Code.

SECTION 2. Section 411.108(a-1), Government Code, is amended to read as follows:

(a-1) The Texas Lottery Commission is entitled to obtain criminal history record information as provided by Subsection (a-2) that relates to a person:

- (1) licensed under Chapter 2001, Occupations Code;
- (2) ~~or~~ described by Section 2001.3025, Occupations Code; or
- (3) holding or applying for a license under Chapter 2053, Occupations Code.

SECTION 3. Not later than February 1, 2026, the Texas

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1 Lottery Commission shall adopt the rules necessary to implement  
2 Chapter 2053, Occupations Code, as added by this Act.

3       SECTION 4. Notwithstanding Section 2053.153, Occupations  
4 Code, as added by this Act, a fantasy contest operator license  
5 holder is not required to pay the tax established by that section  
6 before July 1, 2026.

7       SECTION 5. This Act takes effect September 1, 2025.