





# INTEROFFICE MEMO

*Gary Grief, Executive Director*

*Alfonso D. Royal III, Charitable Bingo Operations Director*

**To:** J. Winston Krause, Chairman  
Carmen Arrieta-Candelaria, Commissioner  
Peggy A. Heeg, Commissioner  
Doug Lowe, Commissioner  
Robert Rivera, Commissioner

**From:** Kathy Pyka, Controller *KP*

**Date:** March 24, 2017

**Re:** Budget Recommendations, 85<sup>th</sup> Legislature

An analysis that compares decisions by the Senate Finance Committee and House Appropriations Committee on the Commission's FY 2018-19 budget is attached.

In summary, the Commission requested consideration of the restoration of all budgetary reductions that impact revenue generation of the Commission and a new Scratch Ticket Production and Services Contract Rider. The budget committee and a description of each item follows:

### **Senate Finance Committee**

- 1) Restoration of \$16.1 million in budget reductions – Did not recommend funding
- 2) Scratch Ticket Production and Services Contract Rider – Did not recommend funding

### **Senate version of the Budget - Restoration of \$16.1 million**

The Commission's exceptional item request for Senate Bill 1 amounted to \$16.1 million to seek partial restoration of the \$18.1 million budget reduction to the Lottery Dedicated Account. The Exceptional Item was prioritized to allow for continued revenue generating functions and for restoration of lottery revenue to the Foundation School Fund.

The exceptional item included the following programs:

Mass Media Advertising Services – Strategy A.1.8 - \$14.7 million

Marketing and Promotion - Products and Promotional Events – Strategy A.1.3 - \$0.63 million

Market Research Services – Strategy A.1.10 - \$0.76 million

While the budget reduction for these programs amounts to \$16.1 million, it translates to an exponentially greater impact on revenue to the State's beneficiaries and retailers. The following economic impacts are estimated from the budget reduction:

- Sales reduction of \$399 million
- Revenue reduction to the Foundation School Fund of \$108 million
- Retailer compensation reduction of \$20 million

### **House Appropriation Committee**

- 1) Restoration of \$4.0 million in budget reductions – Did not recommend funding
- 2) Scratch Ticket Production and Services Contract Rider – Did not recommend funding, but placed in Article XI “wish list”

### **House version of the Budget - Restoration of \$4.0 million**

For the House version of the budget, the Commission submitted an exceptional item request amounting to \$4.0 million to seek partial restoration of the \$6.1 million budget reduction to the Lottery Dedicated Account. The Exceptional Item request was also prioritized to allow for continued revenue generating functions and for restoration of lottery revenue to the Foundation School Fund.

Restoration was requested for the following programs:

Mass Media Advertising Services – Strategy A.1.8 - \$2.6 million

Marketing and Promotion - Products and Promotional Events – Strategy A.1.3 - \$0.63 million

Market Research Services – Strategy A.1.10 - \$0.76 million

While the proposed budget reduction for these programs amounts to \$4.0 million, it also translates to an exponentially greater impact on revenue to the State’s beneficiaries and retailers. The economic impacts estimated from the proposed budget reduction include:

- Sales reduction of \$74.6 million
- Revenue reduction to the Foundation School Fund of \$20.1 million
- Retailer compensation reduction of \$3.7 million

### **Senate and House version of the Budget - Scratch Ticket Production and Services Contract Rider**

The Commission requested a new Rider to address the funding mechanism of Strategy A.1.7, Scratch Ticket Production and Services Contract(s) (Strategy A.1.7) using an estimated funding structure based on a percentage of scratch ticket sales.

**Impact:** The Commission’s ability to procure scratch ticket products from its three contracted vendors will not be sustained at a level that can support the growth in sales of this product, thus impacting the amount of revenue that can be generated.

Please feel free to contact me at 512-344-5410 if you need additional information or have any questions.

cc: Gary Grief  
Alfonso Royal

Texas Lottery Commission  
 FY 2018-19 Legislative Budget Request Status, 3/24/2017

Agency Requests:	Senate Finance Amount for Consideration	Vote by Senate Finance (SB 1) as of 3/15	House Appropriation Amount for Consideration	Vote by House Appropriations (HB 1) as of 3/16	Conference Committee Item
1	Increase GR-D Fund 5025 funding for items included in recommended reductions. No cost: GR-D Fund 5025 is not subject to the Comptroller's certification in the General Appropriations Act.				
a.	Advertising services contracts	Not adopted	\$2,620,000	Not adopted	Yes, regarding dollar value of reduction
b.	Products and promotional events	Not adopted	\$627,092	Not adopted	
c.	Market research services	Not adopted	\$761,800	Not adopted	
2	New Rider, Scratch Ticket Production and Services Contract(s), that would allow the agency to set GR-D Fund 5025 appropriations to Strategy A.1.7, Scratch Ticket Production Contract(s), in fiscal years 2018 and 2019 in an amount equal to 1.1 percent of scratch ticket sales in fiscal years 2018 and 2019, respectively. In alignment, the agency requests that Strategy A.1.7 be modified to an estimated strategy. No cost: GR-D Fund 5025 is not subject to the Comptroller's certification in the General Appropriations Act.			Article XI	Yes
<b>Total</b>			<b>\$29,388,912</b> <b>\$45,510,908</b>		