

## **BILL ANALYSIS**

Senate Research Center  
81R12134 PMO-D

H.B. 1963  
By: Kuempel (Whitmire)  
State Affairs  
5/1/2009  
Engrossed

### **AUTHOR'S / SPONSOR'S STATEMENT OF INTENT**

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

The 76th Legislature repealed the prize cap but linked the repeal to a formula that reduces the advertising budget for the lottery from a base of \$40 million annually, by \$1 million for each one percent by which the lottery's prize payout exceeds 52 percent of gross sales revenue. The Texas Lottery Commission has experienced an increase in overall prize payouts over the past five years to approximately 61 percent of gross sales revenue, nine percentage points higher than the 52 percent referenced in the State Lottery Act, resulting in an overall reduction in the advertising budget for fiscal year 2007 from \$40 million to \$31 million without accounting for the impact of inflation.

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

H.B. 1963 amends current law relating to the limitation on the lottery advertising expenses based on the lottery prize payout percentage. The bill deletes the limitation on the lottery's advertising budget, which is based on the percentage of lottery prize payouts.

### **RULEMAKING AUTHORITY**

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

### **SECTION BY SECTION ANALYSIS**

SECTION 1. Repealer: Section 466.015(d) (relating to the provision that the advertising budget for the lottery in a certain year is prohibited from exceeding a certain amount under certain conditions), Government Code.

SECTION 2. Effective date: upon passage or September 1, 2009.