

TRANSCRIPT OF PROCEEDINGS  
BEFORE THE  
TEXAS LOTTERY COMMISSION  
AUSTIN, TEXAS  
COMMISSION MEETING

AUGUST 7, 2024

10:00 a.m.

AT

GEORGE H. W. BUSH BUILDING  
1801 Congress Avenue  
Austin, Texas 78701

Transcript prepared by Rev.com and Commission staff from an audiovisual recording.

## APPEARANCES

CHAIRMAN:	Robert G. Rivera
COMMISSIONERS:	Cindy Lyons Fields Mark A. Franz Clark E. Smith
EXECUTIVE DIRECTOR:	Ryan Mindell
CHARITABLE BINGO OPERATIONS DIRECTOR:	LaDonna Castañuela
CONTROLLER:	Sergio Rey
PRODUCTS MANAGER:	William Russ
MCCONNELL & JONES LLP:	Darlene Brown
BINGO ADVISORY COMMITTEE CHAIRMAN:	William "Trace" Smith III
DIRECTOR OF ADMINISTRATION:	Angela Zgabay-Zgarba
DIRECTOR OF GOVERNMENTAL AFFAIRS:	Nelda Treviño
LOTTERY OPERATIONS DIRECTOR:	Robert Tirloni
SPECIAL COUNSEL:	Deanne Rienstra

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C. To receive legal advice regarding pending or contemplated litigation or settlement offers, or other legal advice, pursuant to §551.071(1) and (2) of the Texas Government Code, including but not limited to legal advice regarding the following items:	

Pending litigation - regarding Fun 5's Scratch Ticket Game #1592, including Travis County District Court Docket No. D-1-GN-14-005114 (Steele, et al. v. GTECH Corp.); and Dallas County Justice Court, Precinct 3, Place 1, Cause No. JPC-24-02259-31 (Ethel Lache v. Lenora Taylor, Will Simpson & Gary Grief).

Legal advice regarding Texas Government Code Chapters 466 (State Lottery Act) and 467 (Texas Lottery Commission), the Bingo Enabling Act, the Open Meetings Act, the Public Information Act, the Administrative Procedure Act, employment and personnel law, procurement and contract law, evidentiary and procedural law, ethics laws, and general government law.

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## 1 PROCEEDINGS

2 THURSDAY, AUGUST 7, 2024 (10:00 a.m.)

## 3 AGENDA ITEM I.

4 CHAIRMAN RIVERA: Good morning, everyone. Can you hear me? Is  
5 this on? Okay, good morning. I'd like to call this meeting of the Texas  
6 Lottery Commission to order. Today is August the 7th. It is 10:00 a.m.  
7 We have 80% of our Commissioners here and we will start with the Pledge  
8 of Allegiance and then pledge to the Texas Flag.

9 (Pledges recited)

## 10 AGENDA ITEM II.

11 CHAIRMAN RIVERA: Okay, good morning, again. The first item is  
12 a report from the Bingo Advisory Committee. Trace, this is your item.

13 MR. SMITH: Good morning, Commissioners, Bingo Commissioner  
14 Fields, Chairman Rivera. I'm pleased to report that your Bingo Advisory  
15 Committee has been very busy the past few months. We have been working  
16 hard on the rules review, the Fiscal Year 2024 Annual Report, the  
17 continuation of the BAC, the appointment process of committee members  
18 and the BAC's annual work plan for 2025.

19 The 2023-2024 Annual Report: 16 TAC §402.102(n) and the 2023-  
20 2024 work plan requires an annual report by the Bingo Advisory Committee  
21 to the Commission. This report provides the Commission with information  
22 required both by statute and rule and additional information so that it  
23 is comprehensive. This report uses data provided by the Charitable Bingo  
24 division. This data may not have been audited. The statute uses the term  
25 "net proceeds" while the rule uses the term "net receipts". For purposes  
26 of this report, the terms are synonymous.

1           Gross receipts: Gross receipts increased slightly in calendar  
2 year 2023 to 901.6 million. That is just under a 1% increase over the  
3 calendar year 2022, which had an 896.6-million in gross receipts. Gross  
4 receipts in 2021 were 938.4-million. Pull-tab sales continued to drive  
5 overall sales. However, predatory pricing in urban markets continues to  
6 have negative consequences for regular bingo sales and net receipts.  
7 Supply chain issues have largely disappeared. Consolidation and belt-  
8 tightening among suppliers diminish the diversity of pull-tab products  
9 available to conductors.

10           Adjusted Gross Receipts or AGR: The term "adjusted gross  
11 receipts" is defined as the amount remaining after prizes and fees to  
12 the state and local governments are paid. AGR in 2023 was 202.6-million  
13 compared to almost 198-million in the 2022 calendar year. That is a 2.3%  
14 increase year-over-year. AGR in 2021 was 214.2-million.

15           Net proceeds: Overall net proceeds to charities, which is the  
16 total amount of money retained by a charity conductor of bingo after  
17 payment of all expenses, saw a slight increase in 2023. At almost \$30.7-  
18 million, that's more than 4% higher than 2022 net proceeds of 28.8-  
19 million. Net proceeds were almost 15.2% of Adjusted Gross Receipts in  
20 2023 compared to 14.5% in 2022.

21           Reported charitable distributions: The Bingo Enabling Act  
22 requires charity conductors to distribute for charitable purposes all  
23 net proceeds that exceed the maximum capital reserve allowed by the Act.  
24 Some organizations choose to maintain capital reserves lower than allowed  
25 and distribute net proceeds beyond what they may be statutorily required.  
26 Maintaining a capital reserve is fundamental to a business. This explains

1 the difference in net proceeds for charitable distributions to the  
2 charities. Charitable distributions for 2023 were \$28.3-million compared  
3 to \$29.7-million in 2022.

4       Expenses: For the purposes of this report, expenses here are  
5 calculated by subtracting net proceeds from AGR. In 2023, aggregate  
6 expenses increased modestly in 2022 to \$171.9-million compared to \$169.2-  
7 million in 2022. That is a 1.6% increase year-over-year.

8       Attendance: At 10.08-million, attendance continued its slide  
9 down, but only slightly. Attendance in calendar year 2022 was 10.1-  
10 million. This ongoing decline remains worrisome. Since 2007, attendance  
11 has plummeted 44% when it peaked at \$17.9-million. This continues to be  
12 the largest threat to charitable bingo and the approximately 1,000 non-  
13 profits that generate revenue for their community work. We hope that  
14 legislative changes--new prize structure and more temporary sessions--  
15 will yield results in 2024 to further slow the decline in attendance.  
16 As noted in the past, market research indicates that a general lack of  
17 awareness poses a significant challenge for charitable bingo. Bingo is  
18 not the top choice compared to other entertainment options. Private-  
19 sector digital advertising conducted pre-COVID and post-COVID has shown  
20 promising returns on investment. Nevertheless, charitable bingo should  
21 consider a public-private partnership to generate the resources required  
22 for scaling promotional efforts in a large state like Texas.

23       Providing feedback: The BAC has successfully provided  
24 feedback and comments to the CBOD staff and Commissioners on all  
25 administrative rules and amendments. It actively engages in the current



1 rules review and the Texas Sunset Advisory Commission's review of the  
2 TLC and CBOD.

3 Website review: The BAC is still currently reviewing and  
4 collecting data to report its recommendations to the staff and  
5 Commissioners.

6 Reporting: The BAC successfully reported to the Commission  
7 updates on the BAC's activities, industry accomplishments, challenges  
8 and concerns.

9 Annual report: The BAC has submitted the required annual  
10 report to the Commission and to the CBOD director.

11 Concluding comment: By the numbers, charitable bingo had a  
12 solid year in 2023. Net proceeds had a bounce back. Attendance showed  
13 only a modest decrease. And aggregate expenses were essentially flat for  
14 2023. Our view is that the tools provided by the Texas Legislature had  
15 a positive impact, but we will better assess the impact in 2025 after  
16 more than a full year of implementation. Regardless, there's little doubt  
17 that without new tools and some form of awareness campaign, the future  
18 of charitable bingo as a source of revenue for roughly 1,000 non-profits  
19 across the state is threatened.

20 The Bingo Advisory Committee remains committed to working with the  
21 Commissioners and the CBOD staff to advise and respond to the issues  
22 that arise this year, and those to come. We particularly want to thank  
23 the Lottery and Bingo division staff for their collaborative working  
24 relationship. While we do not, nor expect, to always agree, searching  
25 for common ground and consensus, which they regularly do, is very much  
26 appreciated.

1           We also appreciate the time and attention that Commissioner  
2 Fields provides as the designated Charitable Bingo Commissioner and the  
3 responsiveness of the Chairman and all Commissioners when called upon.  
4 Thank you.

5           We respectfully request that the Commissioners vote to  
6 reinstate the BAC for a one-year period.

7           CHAIRMAN RIVERA: Okay, Trace, thank you sincerely for your  
8 years of effort, work and, obviously, your very detailed, updated  
9 information. So, on behalf of all of our Commissioners, we're grateful.  
10 So, thank you.

11           Commissioners, before calling for discussion, I want to ask  
12 Commissioner Fields, as the designated bingo Commissioner, if she has  
13 any comments that she'd like to discuss.

14           COMMISSIONER FIELDS: Chairman --

15           MS. CASTAÑUELA: I think Trace has some more --

16           CHAIRMAN RIVERA: Okay.

17           MS. CASTAÑUELA: -- I think he's going to make a  
18 recommendation. A couple of recommendations. Is that right?

19           MR. SMITH: Yeah.

20           CHAIRMAN RIVERA: Okay.

21           COMMISSIONER FIELDS: Right and then I'll follow.

22           MR. SMITH: Okay.

23           CHAIRMAN RIVERA: Okay. My apologies. I thought Trace, you had  
24 concluded.

25           MR. SMITH: Normally, I would be finished but today --

26           CHAIRMAN RIVERA: Okay.

1 MR. SMITH: -- a lot of year-end reports got to get through.

2 CHAIRMAN RIVERA: Let's keep rolling.

3 MR. SMITH: Alright, three more items and we'll be done. The  
4 next item in my report is the BAC nominations. The BAC is pleased to  
5 report that we have received and reviewed all of the nomination forms  
6 from the staff. While the BAC agrees that all of the potential nominees  
7 are well qualified, the BAC makes the following recommendations to  
8 appoint the following members to the BAC: Trace Smith, conductor; Melodye  
9 Green, commercial lessor; Floyd Olive, manufacturer; Tommy Duncan,  
10 distributor; Jason Pohl, conductor; Veronica Uriegas, charity lessor;  
11 Dr. Demetrick "Tre" Pennie, as a public member; Shera Wilson, as a public  
12 member; and Audrey Walter, as a conductor lessor. Those are our  
13 recommendations for the next BAC.

14 Number three -- or the next item is the 2025 annual work plan.

15 Number one, identify potential rule or procedural changes  
16 that may help organizations address challenges related to conducting  
17 charitable bingo. Any potential recommendation on changes to how bingo  
18 games are played shall be clearly authorized by Texas law but may also  
19 include research, consideration and discussion of issues not authorized  
20 by Texas law.

21 Number two, continue to make recommendations and assist in  
22 the 2024 Charitable Bingo rules review and make a final recommendation  
23 to the Texas Lottery Commission regarding adoption.

24 Number three, review ways that other states and jurisdiction  
25 assist charities including by promoting awareness among consumers.

1           Number four, monitor legislative activity that may impact  
2 charitable bingo, especially issues related to recommendations and  
3 proposals by the Sunset Advisory Commission and staff.

4           Number five, provide support as needed to secure legislative  
5 approval of any proposed CBOD requested changes to the Bingo Enabling  
6 Act.

7           Number six, provide feedback and comments to CBOD staff and  
8 Commissioners on changes to administrative rules in chapter 402 and any  
9 other new additional amendments.

10          Number seven, work with CBOD staff to identify ways to  
11 increase filing of quarterly reports using the online filing system.

12          Number eight, review components of the agency's charitable  
13 bingo website, including the listing of BAC members and recommended  
14 elements and information to be included in future website updates.

15          Number nine, provide reports at each Commission meeting that  
16 includes status updates of the BAC's activities, industry  
17 accomplishments, challenges or concerns.

18          Number ten, develop the required BAC annual report to the  
19 Commission on the state of the charitable bingo industry and submit to  
20 the Commission and to the charitable bingo director by July 15th, 2025.  
21 That is our Fiscal Year 2025 work plan.

22          And finally, the rules review. The BAC voted yesterday to  
23 follow staff recommendations to proceed in the rule review process. That  
24 concludes my report.

1 CHAIRMAN RIVERA: Okay. Trace, again, thank you for your  
2 dedication and hard work and, definitely, it shows up. So, we're  
3 grateful.

4 MR. SMTIH: Thank you, sir.

5 CHAIRMAN RIVERA: Okay, with that I'll ask Commissioner Fields  
6 for her comments.

7 COMMISSIONER FIELDS: Thank you. I want to thank the current  
8 members of the BAC for their service and Trace Smith for your leadership  
9 as the chair.

10 MR. SMITH: Thank you.

11 COMMISSIONER FIELDS: The BAC has made good progress this year  
12 and has submitted recommendations for committee members and a work plan  
13 for fiscal 2025. All the Commissioners received nomination forms and any  
14 resumes and letters of recommendation submitted for the applicants.  
15 Several Commissioners interviewed individual applicants and there has  
16 been a high level of Commissioner engagement in this process. I sincerely  
17 want to thank LaDonna who has been extremely helpful to receive input  
18 from the individual Commissioners and develop a proposed roster of  
19 members for the next year, as well as to provide suggestions on the work  
20 plan. Also, thank you to Marie Medina who was critical in scheduling  
21 interviews with all of the applicants, and we also appreciate all the  
22 people that applied for the positions. I would like to ask LaDonna to  
23 briefly explain the process for developing the list of proposed members  
24 for the next BAC.

25 MS. CASTAÑUELA: Thank you, Commissioner Fields. Good morning,  
26 Commissioners. For the record, I'm LaDonna Castañuela, director,

1 Charitable Bingo Operations Division. The BAC nomination period was a  
2 little more than three weeks, from May 6th to May 28th. In addition to  
3 an email blast that went out to all individuals listed in the division's  
4 licensing database, I sent an email request to all lessors asking them  
5 to post the nominee solicitation in the bingo halls, and I conducted  
6 additional outreach to Texas Municipal League, the Texas Association of  
7 Counties, the Texas Commission on Law Enforcement, and the Texas Catholic  
8 Conference of Bishops, in hopes of attracting nominees to represent the  
9 public.

10 We received 14 nomination forms, including at least one for  
11 each of the six required interest groups. I sent all 14 nominations  
12 separately to each Commissioner for consideration. The Commissioners had  
13 several weeks to conduct interviews if they wish to do so. In the last  
14 few days, I collected each Commissioner's list for membership for the  
15 FY '25 BAC. These are the nine nominees who are identified by a majority  
16 of individual Commissioners: Melodye Green, to represent commercial  
17 lessors; Floyd Olive, to represent licensed manufacturers; Jason Pohl,  
18 to represent conductors that are not commercial lessors; Veronica  
19 Uriegas, conductors that are commercial lessors; Audrey Walter,  
20 conductors who are not commercial lessors; Tommy Duncan, to represent  
21 licensed distributors; William "Trace" Smith, conductors that are not  
22 lessors; Dr. Demetrick "Tre" Pennie, to represent the public; and Victor  
23 Kuykendoll, to represent the public. That's all I have about the process,  
24 but I'm available to answer questions.

25 COMMISSIONER FIELDS: Okay, I have a motion.

1           CHAIRMAN RIVERA: Before you do that, I want to say that I --  
2 Cindy-- appreciate your comments and want to add that -- believe that -  
3 - the BAC is a valuable tool for the Commission and our regulation of  
4 charitable bingo. We appreciate the direct communication that we have  
5 with the industry and that the BAC provides. Concerning the work plan,  
6 the Commission continues to instruct the BAC not to work on any  
7 recommendations or other matters that would expand gaming in Texas or  
8 go beyond the clear direction and authority this agency has received  
9 from the Legislature.

10           So, with that, is there any public comment to this item? Okay,  
11 none? Okay, so Cindy, go ahead.

12           COMMISSIONER FIELDS: My motion includes a couple of  
13 modifications to the BAC recommendations. I move that the Commission  
14 approve continuing the BAC for Fiscal Year 2025 with the following  
15 members, as LaDonna just mentioned: Melodye Green, commercial lessor;  
16 Floyd Olive, licensed manufacturer; Jason Pohl, charity bingo conductor;  
17 Veronica Uriegas, charity lessor; Audrey Walter, charity bingo  
18 conductor; Tommy Duncan, licensed distributor; William "Trace" Smith,  
19 charity bingo conductor; Demetrick "Tre" Pennie, public member; and  
20 Victor Kuykendoll, public member; and approve the work plan for Fiscal  
21 Year 2025, including the following items:

22           Identify potential rule or procedural changes that may help  
23 organizations address challenges related to conducting charitable bingo.  
24 Any potential recommendations on changes to how bingo games are played  
25 shall be clearly authorized by Texas law;

1 Monitor legislative activity that may impact charitable  
2 bingo, including issues related to recommendations and proposals by the  
3 Sunset Advisory Commission;

4 Provide feedback and comments to CBOD staff and Commissioners  
5 on changes to administrative rules in chapter 402 and additional  
6 amendments, including making recommendations in the 2024 Charitable  
7 Bingo rules review, a final recommendation to the Texas Lottery  
8 Commission regarding adoption, and whether any bingo advisory opinions  
9 should be incorporated into the rules;

10 Work with CBOD staff to identify ways to increase online  
11 filing of quarterly reports and payments using the Bingo Service Portal;

12 Review components of the agency's Charitable Bingo website  
13 and the BSP and provide recommendations for improvements;

14 Provide reports at each Commission meeting that include  
15 status updates of the BAC's activities, industry accomplishments,  
16 challenges or concerns;

17 Develop the required BAC annual report to the Commission on  
18 the state of the Charitable Bingo industry and submit to the Commission  
19 and to the Charitable Bingo director by July 15th, 2025.

20 CHAIRMAN RIVERA: Okay. Commissioners, any other discussion on  
21 this item? Is there a second for Commissioner Fields' motion?

22 COMMISSIONER SMITH: I second.

23 CHAIRMAN RIVERA: Okay. All in favor to say aye.

24 (Chorus of "Ayes")

25 CHAIRMAN RIVERA: Okay. Motion passes.



1           COMMISSIONER SMITH: Chairman, if it's alright, I would like  
2 to make just a couple remarks now.

3           CHAIRMAN RIVERA: Please.

4           COMMISSIONER SMITH: Alright. So first I just want to commend  
5 LaDonna and Commissioner Fields for all the hard work that went into  
6 this. I know that this is the first time that we've had a detailed  
7 process like this and it's a heavy lift and it's never going to be  
8 perfect, but I think it's worked well. I'm very comfortable with the  
9 next BAC composition that we have for the next year. You know, rightly  
10 or wrongly, the Sunset Staff Report said that the Commission simply  
11 rubber stamps recommendations for BAC membership. That's clearly not the  
12 case here. We have three new members, members of the public, which we  
13 haven't had in a number of years, so I think it's important to note, not  
14 patting ourselves on the back, but that, in fact, we don't do just rubber  
15 stamp items that come to us from the BAC or elsewhere. I also -- just  
16 like to commend Mr. Duncan. He received a very strong recommendation  
17 from Senator Alvarado. I think that speaks volumes about his leadership,  
18 his value to the committee, and I've also just heard his praises be sung  
19 by LaDonna and by staff. So, I just am excited to be working with the  
20 BAC again the next year. It's obviously a crucial, crucial year for the  
21 bingo industry, for the BAC and for the Charitable Bingo division. So,  
22 that's all I got.

23           CHAIRMAN RIVERA: Okay. Anyone else? Okay, thank you, Trace.

24           MR. SMITH: Thank you very much.

25                           AGENDA ITEM III.

1 CHAIRMAN RIVERA: Next item is the Mega Millions rule proposal.  
2 Deanne and Will, your item.

3 MS. RIENSTRA: Morning Chairman, Commissioners. I am Deanne  
4 Rienstra, Special Counsel. The Mega Millions lotteries have decided to  
5 change the Mega Millions draw game. Whenever they do this, the Texas  
6 Lottery Commission is required to change the Mega Millions draw game  
7 rule to implement whatever changes are adopted by the Mega Millions  
8 lotteries. You have received a draft rule proposal to repeal the current  
9 TLC Mega Millions rule at 16 TAC §401.315, and a proposal for a new Mega  
10 Millions rule to become effective at the start of the new game, which  
11 is expected to be April 5th, 2025.

12 I'd like to also point out that we did receive a correction  
13 to the chart on page 15 of the rule proposal regarding the 2X multiplier,  
14 which will have odds of 2.13, not 2.10, and will be in the version  
15 published as -- if that is what you all decide to do. Will Russ, Products  
16 Manager, is here to present to you the changes that will be implemented  
17 in the new Mega Millions draw game.

18 MR. RUSS: Thank you. Thank you, Deanne. Good morning, Mr.  
19 Chairman. Good morning, Commissioners. For the record, I'm Will Russ,  
20 the Products Manager, and as Deanne mentioned, I'll be reporting on the  
21 details of the upcoming Mega Millions game change. So, Philip, we can  
22 go to the next slide. Thank you.

23 On this slide you'll see a brief timeline of events relating  
24 to the change. We learned about the change earlier this calendar year  
25 and in June Ryan attended a MUSL directors meeting where the rule was  
26 adopted. Sales for the new version of the game are expected to begin on

1 April 5th, 2025, with the first drawing using the new matrix on April  
2 8th, 2025. This is the date that the Mega Millions consortium has  
3 provided with the rules for the new game. If the consortium's date  
4 changes, our launch date will change as well, but we do not expect that  
5 at this point. As a reminder, if Texas does not adopt the rules for the  
6 new game, we cannot sell it and would therefore lose out on significant  
7 revenue.

8 Separately, while this is still approximately eight months  
9 away, we are beginning the rule adoption process now because the agency  
10 and IGT have a lot of work to prepare for the change and launch on time.  
11 Next slide, Philip.

12 Here we see significant changes the game is undergoing. The  
13 price per play is increasing from \$2 to \$5. This jump is significant but  
14 there are benefits for our players. The first one of those benefits is  
15 a starting jackpot of 50-million. This starting point will provide more  
16 excitement during the early stages of a jackpot run. Secondly, a  
17 multiplier is included with every play. On the current game, players pay  
18 an extra \$1 for Megaplier, which can increase their non-jackpot prizes  
19 by 2, 3, 4 or 5 times. Currently, players also have the option to play  
20 for only the jackpot with the aptly named, "Just the Jackpot" feature.  
21 Neither Megaplier nor Just the Jackpot will be continued. The new game  
22 will include a multiplier with every play, which I will explain more in  
23 a couple of slides. Finally, the game is changing to a 5/70 plus 1/24  
24 matrix. As you can see, this will yield better overall and jackpot odds  
25 for our players, which we're very excited about. Next slide, Philip.

1           On this slide, we see the nine tiers for the new game and  
2 their associated odds and prizes. Like the current game, the one that  
3 will launch in April will also have nine tiers. The way to win each tier  
4 is the same as the current game. For example, to win tier six, a player  
5 matches 3 balls of 70 and does not match the Mega Ball. Even the prizes  
6 for the new game are like the current one with the exceptions being tier  
7 eight and tier nine which have increased to \$5 and \$7 respectively. This  
8 is due to the new \$5 price point. Next slide.

9           Another feature of the new game we're excited to tell our  
10 players about is that a multiplier is included with every play. Players  
11 will not, excuse me, players will not have to pay an extra \$1 for a  
12 chance to multiply their non-jackpot prizes like they do on the current  
13 game. Additionally, the new game features a 10X multiplier. This will  
14 be new to the Mega Millions game.

15           Powerball, our other multi-jurisdictional jackpot game,  
16 offers players the option to purchase the Power Play add-on, which can  
17 increase non-jackpot prizes by 2, 3, 4, 5, or 10 times. The 10X  
18 multiplier, however, is not available on Powerball jackpots that are  
19 \$150-million or higher. The new 10X multiplier on the upcoming Mega  
20 Millions game does not have this jackpot limitation. So, if a player  
21 wins a non-jackpot prize in the new version of the Mega Millions game,  
22 the prize will be automatically multiplied by the multiplier for that  
23 play. Here's an example. The \$5 prize I showed you on the last slide  
24 will increase to a minimum of \$10 or maximum of \$50 based on the  
25 multiplier included with the play. Next slide.

1           Here we have a timeline with some important dates. In a few  
2 weeks, on August 23rd, the rule will be published in the Texas Register  
3 and we will provide a link on the Texas Lottery homepage so the public  
4 has the opportunity to comment on the game change. At our next meeting,  
5 the rule will be presented to the Commission for adoption. Next slide,  
6 Philip.

7           In conclusion, this presentation today is the first step in  
8 a long process to prepare for the game change. If the rule is adopted  
9 in October, our lottery gaming system, website, mobile app, retailer  
10 training documents and many other materials will need to be updated to  
11 reflect the specifics of the new game. In the coming months, we will  
12 also begin player and retailer outreach and we'll use every available  
13 resource to educate both groups on the new game. We expect a new game  
14 and our efforts to yield positive sales results. I'm looking forward to  
15 keeping the Commission updated on all aspects of this. And with that  
16 I'll turn it back over to Deanne.

17           MS. RIENSTRA: Commissioners, this is an action item. Staff  
18 recommends the Commission initiate the rulemaking process by publishing  
19 the proposed repeal and new rule in the Texas Register in order to  
20 receive public comment for a period of 30 days. We are happy to answer  
21 any questions.

22           CHAIRMAN RIVERA: Okay, Commissioners, any discussion?

23           COMMISSIONER SMITH: I just have one question. This is a  
24 significant rule change. I look forward to you guys moving forward with  
25 it. Tip my hand, I plan on voting to publish. Any thought given to  
26 holding a public hearing at some point during the public comment period?

1 Seems significant enough of a change that that could be warranted. Don't  
2 have to answer that right now, but something to think about.

3 MR. RUSS: Yeah, I prefer to get back to you if we could. I'll  
4 talk to --

5 COMMISSIONER SMITH: Yeah.

6 MR. RUSS: -- everyone around internally, we'll get back to  
7 you.

8 CHAIRMAN RIVERA: Any other discussion?

9 COMMISSIONER FRANZ: Will, I just understand the earliness of  
10 this. Do you feel like you've got enough time to work with IGT and get  
11 this implemented should this rule change go through?

12 MR. RUSS: Yes, sir. That's why we're doing this so early so  
13 we do have enough time and we believe eight months will be enough time,  
14 and we have never missed a launch, so we also have that in our background,  
15 but I think we're good.

16 COMMISSIONER RIVERA: Okay. Deanne, just to confirm, the  
17 Commission's only choices are either to amend the Mega Million changes  
18 and continue to offer the game or stop offering the game?

19 MS. RIENSTRA: Correct.

20 CHAIRMAN RIVERA: Okay.

21 MS. RIENSTRA: You are correct.

22 CHAIRMAN RIVERA: Any other discussion? Okay. Is there a motion  
23 to publish the rule proposal?

24 COMMISSIONER SMITH: I so move.

25 CHAIRMAN RIVERA: Second?

26 COMMISSIONER FIELDS: Second.

CHAIRMAN RIVERA: Okay. All in favor say aye.

(Chorus of "Ayes")

CHAIRMAN RIVERA: Okay. Motion passes. Thank you both very much.

(In unison)

MS. RIENSTRA AND MR. RUSS: Thank you.

AGENDA ITEM IV.

CHAIRMAN RIVERA: Okay, next item is a report on our Austin warehouse lease. Angela, your item.

MS. ZGABAY-ZGARBA: Good morning, Chairman. Commissioners. For the record, my name is Angela Zgabay-Zgarba, Director of Administration. Item four in your notebooks is a briefing item to advise the Commission of staff's intent to extend the Austin warehouse lease for an additional five-year term. The warehouse provides storage for receiving and distributing supplies, equipment, furniture and promotional merchandise to the TLC headquarters and various offices across the state. In addition, the warehouse serves as a backup space, including our drawing studio. Commissioners have independently confirmed that they have no financial interest in the vendor. If you have any questions, Mr. Chairman, I'd be happy to answer them.

CHAIRMAN RIVERA: Okay. Commissioners, any discussion? No? Good job.

CHAIRMAN RIVERA: Okay, thank you very much.

MS. ZGABAY-ZGARBA: Alright.

AGENDA ITEM V.

1 MS. ZGABAY-ZGARBA: I'm also number five. Do you want me to  
2 move on?

3 CHAIRMAN RIVERA: Yes.

4 MS. ZGABAY-ZGARBA: Okay. Alright. The item five in your  
5 notebooks is also a briefing item. This is an interim status update to  
6 let you know that the lottery operations and services RFP is continuing  
7 to progress as planned. Included in your notebook is the timeline of  
8 events for the RFP and, as you can see, we are currently in the first  
9 round of questions and answers. If there are any changes to the timeline,  
10 an amendment will be posted on the Electronic State Business Daily and  
11 the Texas Lottery websites, with vendors notified. If you have any  
12 questions or comments, Mr. Chairman, I'd be happy to address them.

13 CHAIRMAN RIVERA: Okay, Angela, thank you. Commissioners, any  
14 discussion? Okay, Angela, thank you very much.

15 AGENDA ITEM VI.

16 CHAIRMAN RIVERA: Next item is the Comprehensive Business Plan  
17 and Annual Report. Robert, your item.

18 MR. TIRLONI: Good morning, Mr. Chairman. Commissioners. My  
19 name is Robert Tirloni, I'm the Lottery Operations Director. Item six  
20 today is the agency's 2023 Annual Report and the fiscal 24-25  
21 Comprehensive Business Plan. You have a copy in your notebooks, and we  
22 sent you those documents a few weeks back. In addition, excuse me, Ryan  
23 Mindell, Nelda Treviño, Bob Biard, and I, met with the planning  
24 subcommittee, Commissioner Franz and Commissioner Steen, on July 16th  
25 to discuss the report and business plan, get their feedback and to  
26 discuss next year's version of this report. The Annual Report contains



1 a summary of our achievements during FY '23 and the Comprehensive  
2 Business Plan, which conforms to the statutory requirements of the last  
3 Sunset legislation in 2013, talks about what we've worked on during this  
4 current fiscal year and looks ahead to what is planned for fiscal '25.  
5 The Comprehensive Business Plan contains key performance factors as well  
6 as targets and projections for those factors.

7           We believe this document is really the single best source of  
8 information about all lottery related activities. It highlights both our  
9 successes and our challenges, and it provides a very thorough overview  
10 of our major programs such as responsible gambling, retailer cash  
11 incentives, retailer distribution channels, lottery game promotion, and  
12 last but not least, our entire product portfolio. I know that I refer  
13 to it and use it regularly throughout the year. Producing this report  
14 and business plan is a team effort and involves participation from many  
15 divisions throughout the entire agency. So, thanks to everyone that  
16 contributed. I'd also like to extend special thanks to three people on  
17 my team, Angie Bland, Ami Barzelis, and Merry Mendoza. They keep the  
18 entire drafting, editing, review and approval process for this project  
19 on track and well organized. And last but not least, special thanks to  
20 our in-house graphics team for the great job they do to lay this report  
21 out and make it look great. With that, I'm happy to answer any questions  
22 that any of you may have. And just a reminder, Mr. Chairman, this item  
23 does require Commission approval.

24           CHAIRMAN RIVERA: Okay, Robert, thank you again, with any  
25 comments from the planning subcommittee. We have one member of the  
26 subcommittee here.

1           COMMISSIONER FRANZ: Yeah, as Robert mentioned, Commissioner  
2 Steen and I who make up the planning subcommittee met with Robert and  
3 his staff to review this and to work through some things and I will  
4 commend both the presentation of it and the content as well. It looks  
5 very good, and the planning subcommittee wholeheartedly recommends  
6 approval on this. I'll make one note, the Sunset Commission noted in  
7 their report that this report doesn't change that much year-to-year.  
8 Well, it's largely because our operations don't change much. We have a  
9 set of games and products that we offer that doesn't change that much  
10 year-to-year. When they do, it's reflected in this report, but we've  
11 developed a very good and attractive and easily digested report in this  
12 format and so we support the continuation of that because it is effective  
13 at what it's intended to do. For instance, the only thing we've done  
14 since I've been here is a \$100 scratch ticket and the in-lane service.  
15 So, and those are reflected appropriately each time we make those  
16 changes. So, we've got a good report and notwithstanding Sunset  
17 Commission's desire to see something different every year, it's just  
18 not, it's not feasible and not wise to do. So, subcommittee recommends  
19 approval.

20           CHAIRMAN RIVERA: Okay, thank you for the motion. Is there a  
21 second?

22           COMMISSIONER FIELDS: I'll second.

23           CHAIRMAN RIVERA: Okay, we have a second. All in favor say  
24 aye.

25                           (Chorus of "Ayes")

1 CHAIRMAN RIVERA: Okay. Motion passes. Robert, thank you very  
2 much.

3 MR. TIRLONI: Thank you all.

4 CHAIRMAN RIVERA: Okay, and also thank you to the planning  
5 subcommittee as well.

6 AGENDA ITEM VII.

7 CHAIRMAN RIVERA: Next item is report on lottery sales and  
8 revenue. Sergio and Will, your item.

9 MR. REY: Good morning. For the record, Sergio Rey, Controller  
10 for the Texas Lottery. Will Russ, Products Manager, and I will provide  
11 the following briefing on sales through the week ending July 27th, 2024.  
12 At the 48-week mark of fiscal year 2024, total sales have reached \$7.63-  
13 billion. This an overall 4.1% decrease from last year with the delta  
14 from last year's total now at \$325-million. As you can see on the chart,  
15 the draw sales year-to-date are almost \$1.6-billion. This is under the  
16 sales this time last year at approximately \$194-million less or down  
17 about 10.9%. This time last year the Powerball had a jackpot of \$1-  
18 billion in mid-July and we were in the middle of a large Mega Millions  
19 jackpot that eventually hit 1.58-billion. Scratch sales remain lower  
20 from last year by approximately \$131-million and this gap is 2.12%.  
21 Although the numbers reflect otherwise, fiscal year 2024 total sales  
22 will still reflect a very successful year. Will Russ will now provide  
23 the perspective from scratch and draw games.

24 MR. RUSS: Good morning again, Commissioners. For the record,  
25 I'm Will Russ, the Products Manager, and will be giving a more detailed  
26 view of the sales that Sergio just reported on. If we look at this slide,

1 at the bottom right corner, you can see the year-over-year decline of  
2 about 324.7 million or 4.08%. The main contributors to this decline are  
3 the national draw games Mega Millions and Powerball, the in-state jackpot  
4 game Lotto Texas, and then also our scratch ticket sales. At our last  
5 meeting, the Mega Millions deficit was about 50-million, which included  
6 the add-on features. Last summer during this corresponding period, the  
7 game had one of its best runs when it hit 1.58-billion on August 8th,  
8 2023. The deficit is now approximately 101.6-million. The current  
9 jackpot, however, is of a decent 398-million and with some luck it will  
10 roll and will start FY '25 with some strong sales.

11           Powerball is down as well, but only about 43-million. As  
12 Sergio mentioned, this game also had a strong run last summer when it  
13 hit 1-billion on July 19th. The deficit since our last meeting for the  
14 in-state draw game Lotto Texas has remained steady at about 57-million.  
15 Our other in-state jackpot game, Texas Two Step, is slightly up. We were  
16 pleased to see this game hit a \$1.2-million jackpot on July 18th. This  
17 helped yield positive sales results. In the middle of the slide in blue  
18 are the daily games and there's good news to report here. Pick 3 has  
19 remained relatively flat. There's a possibility that this game will be  
20 positive year-over-year, which would be great because we have not seen  
21 that in quite some time. Daily 4, Cash Five and All or Nothing are all  
22 slightly up. In conclusion, for the draw games portion of the portfolio  
23 sales are currently down about 194-million or approximately 10.9%. You  
24 can see that number in orange towards the bottom of the slide.

25           We knew last summer's jackpots on the multi-jurisdictional  
26 games, Powerball and Mega Millions, would create tough comps for us this

1 year and we're seeing the results here. As Sergio mentioned, scratch  
2 sales are down about 130-million or 2.12%. Percentage wise, this is  
3 comparable to the amount we've been down all year. On Monday we launched  
4 a second \$10 loteria-style game. This game titled "Limited Edition Mega  
5 Loteria" is not a replacement game but launched in addition to the \$10  
6 loteria-style game already in market. After analyzing sales data, we  
7 believe the second game will yield incremental sales report -- will yield  
8 incremental sales, excuse me, and I'll report on that at our next  
9 meeting. With that, I'll wrap up. Sergio and I are available for any  
10 questions.

11 CHAIRMAN RIVERA: Okay, thank y'all. Commissioners, any  
12 discussion?

13 COMMISSIONER FRANZ: Just one question, Will. Unequivocally  
14 we've known all along when we hit those big jackpots on the multi-state  
15 ones, that that was going to be tough headwinds. Is it the same case for  
16 Lotto Texas?

17 MR. RUSS: Yeah.

18 COMMISSIONER FRANZ: That number, that 53, what are those  
19 comparable jackpot differentials year-over-year?

20 MR. RUSS: So, the deficit is the same as the last meeting,  
21 which, and at the last meeting we had already gone through what happened  
22 last year in April when it hit, I think 98-million or 93-million. So,  
23 the sales this period are expected. We knew this would happen.

24 COMMISSIONER FRANZ: What's been our highest jackpot this  
25 year?

26 MR. RUSS: I think it was 29-million.

1 COMMISSIONER FRANZ: Yeah. Okay.

2 MR RUSS: - So much lower than --

3 COMMISSIONER FRANZ: Yeah.

4 MR. RUSS: - What it had last -

5 COMMISSIONER FRANZ: -To what drives that?

6 MR. RUSS: Right. Exactly.

7 COMMISSIONER FRANZ: Thank you.

8 CHAIRMAN RIVERA: Okay, Commissioners, any other comments,  
9 questions? Okay. Will, thank you very much.

10 CHAIRMAN RIVERA: Sergio, you didn't speak enough on item  
11 seven, so on item eight, we're going to let you report on the transfers  
12 to the State.

13 AGENDA ITEM VIII.

14 MR. REY: In this agenda item, a high-level summary of the  
15 accrued revenues and transfers through June 30th, 2024. This is item  
16 number eight. Our accrued revenue transfers to the State total \$1.64-  
17 billion at the 10-month mark of fiscal year 2024. The Foundation School  
18 Fund has received \$1.55-billion. The Texas Veterans Commission received  
19 up to -- close to \$20-million and just over \$66-million are transfers  
20 from unclaimed prizes. In total, the Texas Lottery has transferred \$33.4-  
21 billion to the State for education and \$244-million for Texas veterans.

22 As a second part of this item, it's a budget summary of fiscal  
23 year 2024 through May 31st. This detailed information is in your  
24 notebook. As we close out the third quarter of the fiscal year, our  
25 financial activities remain consistent from prior years. The lottery  
26 account budget has expenditures and commitments totaling \$320.7-million,

1 which is 89% of our budget thus far. And bingo operations budget has  
2 \$2.2-million in expenditures and commitments representing 92.7% of its  
3 budget. Our fiscal year will end shortly on August 31st. We have begun  
4 our processes for the Annual Financial Report along with our external  
5 auditors, Weaver and Tidwell, who will be providing an independent audit  
6 report on our financials, which is due in December, on December 15th.  
7 This concludes this presentation. I'd be happy to answer any questions.

8 CHAIRMAN RIVERA: Okay, Commissioners, any discussion? Okay.

9 MR. MINDELL: Chairman, pardon the interruption, and before  
10 Sergio starts his next item, we need to take a brief two-minute break.  
11 There is an issue with the livestream, and we just need a couple minutes  
12 to get the link corrected and that updated.

13 CHAIRMAN RIVERA: Okay, so we will -

14 MR. MINDELL: Pause for two minutes.

15 CHAIRMAN RIVERA: -- pause for two minutes and be right back  
16 in two to three minutes. Okay.

17 MR. MINDELL: Thank you.

18 CHAIRMAN RIVERA: Okay, everyone, I think we are prepared to  
19 move forward. We have our items with technology back in order, but we'll  
20 hand it over to our esteemed leader, Ryan.

21 MR. MINDELL: Thanks, Chairman. Yes, there was an issue with  
22 the livestream link. We do believe that that has been corrected and so  
23 the public should be able to access the meeting. The YouTube video and  
24 recording of this meeting will not be harmed in any way, and so that  
25 will be posted and so anyone will be able to go and see the full recording

1 of the meeting after the fact. And again, now we believe that the  
2 livestream available to the public has been fixed. So -

3 CHAIRMAN RIVERA: Okay.

4 MR. MINDELL: - I'll hand it back to you.

5 CHAIRMAN RIVERA: We appreciate the transparency and all of  
6 the up-to-date -- updated information. So, Sergio, you still here?

7 MR. REY: Yes.

8 CHAIRMAN RIVERA: Okay.

9 AGENDA ITEM IX.

10 MR. REY: And now after that commercial break, Commissioners,  
11 item number nine is the Legislative Appropriations Request. On July 25th,  
12 the agency received the policy letters from the Offices of the Governor,  
13 Lieutenant Governor, and Speaker of the House, as well as the  
14 instructions for the completion of the Legislative Appropriations  
15 Request for fiscal years 2026 and 2027. Thus, the beginning of the  
16 agency's proposals for budget in the next biennium. This process began  
17 in February when we received instructions for our budget structures and  
18 strategic plan as well as the preparation for appropriation-based  
19 reconciliation.

20 To recap from our last meeting's presentation, the LAR  
21 includes an administrator's statement, schedules based on the approved  
22 2026-2027 baseline appropriation limits, the exceptional item requests  
23 that are beyond our baseline amounts and requests for rider authority  
24 revisions and capital expenditure authority. There's a listing on the  
25 next slide of these items, our rider requests and exceptional items, you  
26 will notice, reflect goals set in the agency strategic plan and through



1 the Sunset review process. For this presentation, I will focus on the  
2 main schedules in the LAR. This information was provided electronically  
3 earlier to you this week and discussed with the members of the planning  
4 subcommittee last week.

5         At the same time the agency received the LAR instructions, we  
6 received the approved baseline appropriation limits. The baseline is the  
7 biennial amount of 673,081,674 as reflected on our next slide. This base  
8 is the amount we have allocated to years 2026 and 2027 across the multiple  
9 strategies, method of finance and budget category schedules in the LAR.  
10 This base exceeds the amounts we were appropriated in 2024-'25 by 11.6-  
11 million. The base is calculated by adding the estimated expenditures and  
12 commitments for fiscal year '24 plus the budgeted amounts for fiscal  
13 year 2025. The additional amounts compared to the '24-25 are results of  
14 1.2-million salary adjustments for supporting salaries from the '24-25  
15 increases by the 88th Legislature and the remainder are from the net  
16 adjustments resulting from rider appropriations authorized in our  
17 current bill pattern. This baseline maintains our existing full-time  
18 equivalent or FTE position count at 321.5 per year.

19         In our rider revision request, the agency reviewed the  
20 existing 16 riders in our bill pattern. The majority of our riders  
21 required minimal to no change. These minor changes are primarily date  
22 changes from '24-'25 to '26-'27. I would like to highlight three key  
23 revisions.

24         The first one, the lottery operator contract rider, which  
25 provides direction on calculating the appropriation amount authorized  
26 for this spend. It's a combination of the Controller biennial review

1 sales amount multiplied by the billing percentage rate in the lottery  
2 operator contract. FY '26 is the final year which we can properly update  
3 as the contract is still in effect, the current contract is still in  
4 effect, but FY '27 is the first year of the new contract. So, we will  
5 be in continuing communications with the LBB between now and the  
6 execution of the new contract expected to be executed in fiscal year '25  
7 to finalize what the billing percentage rate will be.

8           The next rider, the agency is requesting the removal of rider  
9 16, lottery sales by phone. Last session a bill proposing similar  
10 language was attempted through the normal bill process, but it did not  
11 pass. The rider was included in our bill pattern, but during governor's  
12 signature process, it was noted as objectionable and unconstitutional.  
13 Therefore, as an agency, no actions were taken related to this directive  
14 rider. In addition to the removal of this rider, we are requesting that  
15 the Legislature provide direction on whether courier services should be  
16 prohibited, regulated, or allowed without regulation. If the direction  
17 is for the Commission to prohibit or regulate courier services, the  
18 Commission recommends the Legislature provide express statutory  
19 authority to the Commission as appropriate in a duly enacted bill.

20           Our last rider is for authority for any remaining general  
21 revenue funds in fiscal year '26 be appropriated for the same purposes  
22 in fiscal year '27. This will give Bingo Operations flexibility to fund  
23 unexpected or ongoing activities as appropriate across the biennium.

24           Next slide is -- there are three exceptional items that are  
25 requested in our LAR. These exceptional items are requests for additional

1 funding, additional FTEs, or both, that are not already included in the  
2 base limitations.

3           The first item is the technology infrastructure upgrades for  
4 Bingo Operating Service System, BOSS, and Bingo Services Portal, BSP.  
5 As noted in the strategic plan and in our Sunset review, the BOSS and  
6 BSP online applications have reached end of life. These were last  
7 refreshed in 2015 and now need to be transferred to a new platform. The  
8 Sunset review also identified other updates that can be incorporated in  
9 this upgrade. This biennial request of almost \$1.6-million includes the  
10 cost of two contractors needed for programming as well as one FTE  
11 position for programming and for the continued maintenance and support  
12 upon deployment. This request is from general revenue funds and the  
13 lottery account.

14           Item number two is a request for additional general revenue  
15 funds for the recruitment and retention of Bingo staff. As you're aware,  
16 the turnover in our Charitable Bingo division continues to be high and  
17 job vacancies still require multiple postings to find and secure  
18 qualified candidates. Even after many successful efforts by our Bingo  
19 director, salaries remain a challenge. So, this request for an additional  
20 \$429,050 or 241,525 per year is a request to make headway in this effort  
21 to address recruitment and retention for this division.

22           Item number three is -- the agency is now on schedule to  
23 deploy the financial modules for the new state financial system of  
24 record, which is a Centralized Accounting and Payroll Personnel System,  
25 CAPPS. The agency has already implemented CAPPS HR modules back in 2020  
26 and had a first attempt at deploying CAPPS Financials in 2021. Issues

1 in the first deployment, some of which were interfaces and reporting  
2 prompted a reschedule for the '26-'27 implementation. Looking at the  
3 Comptroller's schedule, we might just be the last agency pending  
4 deployment of CAPPS Financial. To ensure the successful deployment this  
5 go around and -- during this time, the back office of the Controller,  
6 Administration, IT are also being impacted by other major projects. The  
7 agency is requesting funding for additional FTEs to assist with backfill  
8 while participating in employment efforts. And as we get closer to go  
9 live on September 1st, 2026, the additional FTEs will also be the  
10 testing, training, and crossover team. The agency will assume other  
11 responsibilities with this deployment, specifically, ongoing interface  
12 maintenance, reporting development, security access, and help desk  
13 activities. These are critical areas that will have impact to our current  
14 staff. So, the biennial total for this exceptional item is \$3.8 million  
15 and nine FTEs.

16 Now this final schedule I will go over is the capital project  
17 schedule. This is a request for capital project authority for existing  
18 ongoing funding projects or exceptional items funding requests. Data  
19 center services and CAPPS deployments are considered capital projects  
20 regardless of their amount. Again, this authority request goes hand in  
21 hand with prior requests and is not for additional funds.

22 So, this is the summary of our '26-'27 funding request and  
23 looking forward, the LAR is due to oversight agencies as well as the  
24 Governor's Office and Legislature. We will soon begin hearings with  
25 representatives from the LBB and the Governor's Office with the next  
26 steps followed by budget recommendations, sessions, hearings, and

1 finally the new General Appropriations Act. But first, this agency  
2 requests your approval to proceed with the narrative of the LAR as  
3 presented. This concludes my briefing and I'm available for any  
4 questions.

5 CHAIRMAN RIVERA: Okay, Sergio. Thank you. So again, this is  
6 a living, breathing item and the final is going to be at the end of the  
7 30th of August, correct?

8 MR. REY: Yes, sir.

9 CHAIRMAN RIVERA: Okay. Any comments from the planning  
10 subcommittee?

11 COMMISSIONER FRANZ: Yeah, Sergio mentioned Commissioner Steen  
12 and I as the planning subcommittee, met with Sergio and staff and worked  
13 on the details of these LARs in particular the exceptional items and the  
14 rider requests, and - we spent a fair bit of time on these and so we now  
15 are comfortable that this is where we ought to be and where the request  
16 should be. Like you said, there may be a few tweaks to it just as the  
17 budget wraps up, but there will be no substantive changes on this. So,  
18 the planning subcommittee recommends approval of this LAR.

19 CHAIRMAN RIVERA: Okay. Commissioners, any other comments? So  
20 that is a motion. Do we have a second?

21 COMMISSIONER SMITH: I second.

22 CHAIRMAN RIVERA: Okay, Clark, thank you. All in favor say  
23 aye.

24 (Chorus of "Ayes")

25 CHAIRMAN RIVERA: Motion passes. Okay, Sergio, unless you  
26 would like to do the Sunset Review for Nelda, you're free to go.

1 MR. REY: I will defer.

2 CHAIRMAN RIVERA: Alrighty, Sergio. Thank you.

3 MR. REY: Thank You.

4 CHAIRMAN RIVERA: Ready. Nelda.

5 AGENDA ITEM X.

6 MS. TREVIÑO: Good morning, Commissioners. For the record, I'm  
7 Nelda Treviño, the Director of Governmental Affairs. I'll be providing  
8 a brief update regarding the agency's review by the Sunset Advisory  
9 Commission. As you are aware, the Sunset Advisory Commission rescheduled  
10 its July meeting, and it is now scheduled for next week on August the  
11 14th at 9:00 a.m. Included on their meeting agenda is the presentation  
12 and public testimony regarding the Sunset Staff Report on the Lottery  
13 Commission. At the August 14th hearing, Sunset staff will present its  
14 report and recommendations. The agency will present its response and the  
15 Sunset Commission will hear public testimony and receive written  
16 comments. While a date has not yet been announced, a subsequent hearing  
17 will be scheduled, and the Sunset Commission will then consider and vote  
18 on their recommendations. Following the hearing, the Sunset Commission's  
19 Decision Report on the Lottery Commission will be issued. The  
20 recommendations adopted by the Sunset Advisory Commission will then lead  
21 to a Sunset bill being drafted and filed for the Legislature to consider  
22 during their upcoming legislative session that will convene in January  
23 of 2025. This concludes my report and I'll be glad to answer any  
24 questions.

25 CHAIRMAN RIVERA: Okay, Commissioners, any discussion? None?  
26 Alrighty. Nelda, good job. Thank you very much.

## 1 AGENDA ITEM XI.

2 CHAIRMAN RIVERA: Next item is the Internal Auditor's report.  
3 Darlene, your item.

4 MS. BROWN: Good morning, Commissioners. For the record, my  
5 name is Darlene Brown and I'm the Internal Auditor. Your notebook  
6 contains our proposed Fiscal Year '25 Annual Internal Audit Plan for  
7 consideration and approval. The audit plan was prepared based upon a  
8 risk assessment and discussion with leadership team. We also discussed  
9 our proposed plan with the audit subcommittee. This is a comprehensive,  
10 flexible plan that will allow us to modify or add audits as needed to  
11 address any compliance or new business risk areas such as monitoring  
12 potential implementation efforts of any Sunset Commission  
13 recommendations or any Bingo needs. Our proposed audit plan includes  
14 reviewing eight agency operations; those are advertising, information  
15 technology software development lifecycle, the budget function, the  
16 rulemaking process, tax collections and annuity payments, data  
17 protection, drawing studio and enforcement operations. We anticipate the  
18 level effort 2,000 hours and the fees to be \$295,000. That's the report  
19 for today and I'll be happy to answer any questions you might have on  
20 the proposed audit plan.

21 CHAIRMAN RIVERA: Okay, Darlene, thank you. Any comments from  
22 our audit subcommittee?

23 COMMISSIONER FIELDS: Yes, sir. Mr. Chairman, the audit  
24 subcommittee met with Darlene last week, right?

25 MS. BROWN: Yes.

1 COMMISSIONER FIELDS: And we went thoroughly through the risk  
2 assessment and the process by which she chooses areas, and the audit  
3 subcommittee is very pleased to have Darlene do this for us, and we  
4 approve the audit plan, the internal audit plan.

5 CHAIRMAN RIVERA: Okay. Commissioners, any other discussion?  
6 Okay. Is there a motion for approval? Cindy made that. Okay. Is there a  
7 second?

8 COMMISSIONER FRANZ: I'll second.

9 CHAIRMAN RIVERA: Okay. All in favor to say aye.

10 (Chorus of "Ayes")

11 CHAIRMAN RIVERA: Okay. Darlene, thank you very much.

12 MS. BROWN: Thank you.

13 CHAIRMAN RIVERA: Okay, next item is our Bingo Director's  
14 report, but before I hand it over to LaDonna, I understand we have a  
15 very special guest here that our Bingo Commissioner is going to  
16 introduce.

17 COMMISSIONER FIELDS: We do. Dr. Tre Pennie has made his way  
18 up from Plano to join us here today. He actually was here yesterday at  
19 the BAC, both of the BAC meetings, and may not know this, but was elected  
20 to join the BAC this morning, first thing. So, thank you for coming.  
21 We're really excited about; your level of involvement so far has been  
22 excellent. So, keep that up.

23 CHAIRMAN RIVERA: Yeah. Doctor, thank you for being here and  
24 we appreciate your commitment to the State and to bingo, so thank you  
25 for making the time to be physically present. It means a lot. Thank you.

26 CHAIRMAN RIVERA: Okay, LaDonna.



## AGENDA ITEM XII.

MS. CASTAÑUELA: Good morning, again. For the record, LaDonna Castañuela, Director, Charitable Bingo Operations Division. The notebook materials today include CBOD's output metrics for our licensing, accounting, compliance, and audit activities for the months of June and July through the run date of July 24th. That's all I have for this item and I'm available to answer questions.

CHAIRMAN RIVERA: Okay. Commissioners, any discussion? Cindy, anything else you want to add? I know bingo's been a big percentage of our meeting today, so, LaDonna, good job on just overseeing everything and, as always, you give us tremendous confidence, so, thank you.

## AGENDA ITEM XIII.

CHAIRMAN RIVERA: Okay, next item is the Executive Director's report. Ryan, this is your item, but first Clark has some comments from the legal subcommittee.

COMMISSIONER SMITH: Thanks, Chairman. When the Chairman and I met with Ryan a couple weeks ago, we did ask for some feedback and comments on actions that the agency has taken to address the issues of bulk purchases. We know that this has been sort of in the limelight recently in light of the Lotto tickets from the April 2023 game. So, we wanted to hand it over to you to provide some commentary on that.

MR. MINDELL: Thank you, Chairman and Commissioner Smith and good morning, Commissioners. For the record, my name is Ryan Mindell and I'm the Executive Director.

Now, as you mentioned, on April 22, 2023, there was an advertised \$95-million Lotto Texas jackpot won. I do want to give some

1 history and context about bulk purchasing, before discussing the agency's  
2 plan going forward. As long as there's been lotteries, there have been  
3 people pooling their money to buy tickets. For the discussion today, I  
4 really want to focus on so-called bulk purchasing groups that act when  
5 they believe they have a financial advantage to do so.

6           In February 1992, a Romanian economist reportedly got 2,500  
7 people to combine their funds to buy all 7-million combinations of a  
8 Virginia draw game, leading to over \$28-million in winnings. From 2003  
9 to 2011, a man named Gerald Selby organized a purchasing group in  
10 Michigan and later in Massachusetts to buy large amounts of a game called  
11 Cash WinFall. Eventually, he even had to compete on that game against  
12 another purchasing group out of MIT. Their activities were memorialized  
13 in a 2022 movie called, "Jerry & Marge Go Large".

14           There are many more stories, but I want to start with this  
15 context. For decades, groups have formed to buy tickets when they believe  
16 it is advantageous for them to do so. Of course, the unsuccessful ones  
17 don't get news stories written about them. In the last few years, this  
18 activity is only intensified. Reports of purchasing groups have come out  
19 of Indiana, Maryland, and Oklahoma, among other states. This activity  
20 has elevated the topic within the lottery industry. There was much formal  
21 and informal discussion of bulk purchasing groups at the recent NASPL  
22 directors meeting in June that I attended, and at the NASPL Professional  
23 Development Seminar in July that we had many staff attend. With modern  
24 analytical tools and large amounts of funds at their disposal, every  
25 lottery game in the country, and likely the world, will be analyzed in  
26 one form or another by these types of groups.

1           That brings us back to the April 2023 Lotto Texas jackpot.  
2 That jackpot was the third largest Lotto Texas jackpot in history. The  
3 largest since 2010. The last roll of that jackpot generated over \$25-  
4 million in sales from Wednesday to Saturday. \$25-million of those sales  
5 were generated at four retail locations. As then Executive Director Grief  
6 noted in a press release announcing that the jackpot had been won, we  
7 do believe that the high jackpot generated interest by bulk purchasing  
8 groups that then worked with select retailers to attempt to purchase all  
9 25,827,165 combinations available for that game. This has generated  
10 significant media interest as well. It's a good story just like when the  
11 Romanian economist won in Virginia and Jerry and Marge were buying  
12 tickets in Massachusetts.

13           I do want to make a few things clear for the record. The bulk  
14 purchasing group did not purchase every possible combination. We know  
15 what's called coverage. Less than a hundred percent of the numbers in  
16 that game were purchased. There was a chance that no one would've won  
17 that jackpot at all that day. Every \$1 ticket for the \$95-million jackpot  
18 had the exact same 1 in 25,827,165 chance of winning that jackpot. If  
19 multiple people had tickets that had won that jackpot, they would've  
20 split the jackpot evenly. And last, despite some confusion on the issue,  
21 these tickets were purchased and printed at the brick-and-mortar retailer  
22 location. The jackpot winning ticket was purchased at a retailer that  
23 sold over \$10-million of tickets in that draw. That retailer was  
24 affiliated with a courier, but that courier did not sell Lotto Texas  
25 tickets at that time. Those are the facts.

1 I did want to address one other issue; there is \$466.3054 of  
2 the State Lottery Act. It does make certain group purchase arrangements  
3 illegal, specifically when a person establishes a group purchase group  
4 and retains some of the funds, either the funds meant to buy tickets or  
5 some of the prizes after the fact as a fee for establishing the group.  
6 That's illegal. We have no reason to believe that that law or any other  
7 was violated here.

8 Where does that leave the Texas Lottery? I would start with  
9 the fact that the integrity of the game was not compromised. The  
10 selection of a winner, our draw processes, the fundamental nature of the  
11 draw game, none of these were compromised in any way. These bulk  
12 purchasing groups were legal purchasers of those tickets. However, it  
13 is also clear these activities harm the perception of the Lotto Texas  
14 game. When players do not feel, rightfully or wrongfully, that they have  
15 an equal chance of winning, I believe it is appropriate to understand  
16 why and see if any changes can be made to address that perception.

17 Over the past months, I have spent significant time evaluating  
18 potential changes to our games and the agency's processes and procedures  
19 that might address the player's perceptions. Specifically, I've looked  
20 for guardrails that might make this activity more manageable for our  
21 operations, provide more information to the agency when these groups  
22 operate. I have two changes to brief you on at this time.

23 First, I have implemented a process change on how lottery  
24 terminals are deployed to retailers. Among other things, this process  
25 will involve a higher level of review, including the general counsel and  
26 myself. This will prevent rapid deployment of terminals to retailers who

1 do not have a record of sustained sales, who may be acting in response  
2 to temporary demand.

3           Second, I requested a software change from our lottery systems  
4 vendor IGT, on how the lottery terminal processes wagers for in-state  
5 jackpot games. Significantly, neither of these changes should impact any  
6 regular business processes of our retailers. They won't slow down the  
7 queue line when we do have a high jackpot for normal purchasers. But  
8 these guardrails should help mitigate the impact to the perception of  
9 our games in the future, should bulk purchasing groups become active.

10           I will continue to monitor this activity in Texas and across  
11 the lottery industry. I'll let you know if I have additional updates in  
12 the future, but I want to end with one clear statement. My full  
13 expectation is that this activity will not stop across the country. The  
14 guardrails I put in place are no guarantee it will not happen in Texas  
15 in the future. Before I move on to my second item, I want to see if you  
16 have any questions or comments about that.

17           CHAIRMAN RIVERA: Commissioners? None?

18           MR. MINDELL: Second item concerns our retiring Information  
19 Technology division director, and in recognition of her service, we do  
20 have a proclamation that the Chairman and I have signed, and I'd like  
21 to read that here today.

22           CHAIRMAN RIVERA: Please.

23           MR. MINDELL: Whereas, Joan Kotal is retiring from the Texas  
24 Lottery Commission.

25           Whereas, in fulfilling the duties and tasks of the Information  
26 Technology Division Director of the Texas Lottery Commission, Joan drew

1 from her extensive experience, having served the State of Texas for more  
2 than 43 years, beginning with the Department of the Office of the Texas  
3 Governor. She's indeed deserving of special, professional, and personal  
4 recognition.

5 And whereas, for the last 17 years, Joan has deftly led the  
6 information technology efforts of the Texas Lottery Commission,  
7 successfully navigating the agency through innumerable technology  
8 projects in a rapidly changing environment.

9 Whereas, during her tenure with the agency, the Texas Lottery  
10 experienced record-breaking sales and revenue transfers to the State of  
11 Texas.

12 Whereas, raised in a military family with four brothers, Joan  
13 graduated from Copperas Cove High School and the University of Texas at  
14 Austin prior to her career with the State, making Texas her home.

15 Whereas, Joan with her husband David, are proud parents to  
16 their son Clint and his wife Allison, their son Garrett and his wife  
17 Lindsey, and proud grandparents to Clint and Allison's children,  
18 Madeline, Hannah and Jack, and Garrett and Lindsey's children, Walker  
19 and Wyatt.

20 Whereas, retirement will provide Joan with discretionary time  
21 to be with her friends and family, pursue her hobbies and to travel  
22 wherever the road leads.

23 Whereas, the Information Technology team and the agency will  
24 greatly miss Joan's mentorship, expertise, direction, drive, and  
25 friendship.

1           Resolved, that the Texas Lottery Commission and her many  
2 friends and loving family members hereby congratulate Joan Kotal on her  
3 retirement and extend to her sincere best wishes, now and during her  
4 next chapter in her life.

5           Be it further resolved, an official copy of this proclamation,  
6 be prepared for Ms. Kotal, an expression of high regard by the Texas  
7 Lottery Commission. Thank you Joan for all you've done.

8           Chairman, that concludes my report.

9           CHAIRMAN RIVERA: Okay, Joan, thank you very much for your  
10 over four decades of service to the State. On behalf of all of our  
11 Commissioners we are incredibly grateful for your years of service and  
12 all of the quality that you have provided for a significant amount of  
13 time. And we know that your presence will remain, as your hard work and  
14 effort will be a never-ending timestamp here, particularly with the  
15 specific work that you do, and we'll continue to have a hand in the  
16 direction of the Lottery even though you may not physically be here, but  
17 your work ethic and dedication will remain. So, we are very grateful,  
18 Joan. Thank you very much.

19                           AGENDA ITEM XIV.

20           CHAIRMAN RIVERA: Okay. We have a slight change of our  
21 enforcement cases. Bob is not here today, but Ryan is, and so he will  
22 handle Bob's item.

23           MR. MINDELL: Thank you, Chairman. Again, for the record, Ryan  
24 Mindell, Executive Director. Item fourteen in your notebook contains  
25 eleven cases, nine lottery and two bingo cases.

1           Tabs A through K are cases where a lottery or bingo licensee  
2 or bingo worker violated a statute or rule. In most cases, either the  
3 respondent failed to appear at the hearing or proceeded by default and  
4 the staff and the respondent reached a settlement in the form of an  
5 agreed order.

6           Tabs A through E are non-sufficient fund lottery retailer  
7 license revocations, handled in a single order. Each case was presented  
8 at the State Office of Administrative Hearings for revocation of the  
9 retailer license because the licensee failed to have sufficient funds  
10 in their bank account to cover the funds transfer to the Commission's  
11 account. In each case, again, the licensee failed to appear at the  
12 hearing. The judge remanded to the Commission to handle as the default  
13 matter.

14           Tabs F to I are lottery agreed orders. We have three debit  
15 card cases, one case where a retailer employee loaned money to a customer  
16 to buy lottery tickets.

17           Tabs J and K are bingo agreed orders. We have one three-year  
18 conditional bingo worker registration and a bingo unit accounting case  
19 settling various violations.

20           That concludes the presentation of this item. You can take up  
21 the enforcement orders in a single vote if you'd like. I'm happy to  
22 answer any questions as I can.

23           CHAIRMAN RIVERA: Okay. Commissioners, any questions? If not,  
24 is there motion?

25           COMMISSIONER FIELDS: Motion to approve.

26           COMMISSIONER SMITH: Second.



1 CHAIRMAN RIVERA: Second. All right. All in favor to say aye.

2 (Chorus of "Ayes")

3 CHAIRMAN RIVERA: Okay. Ryan, thank you very much.

4 AGENDA ITEM XV.

5 CHAIRMAN RIVERA: Next item is public comment. No speakers. I  
6 would like to first thank Commissioner Fields for her work as our  
7 designated Bingo Commissioner. I know that you've had a lot on your plate  
8 here to get us through today, and so thank you, Cindy, for all the hard  
9 work that you have done, and to all of our Commissioners, our audit  
10 committee, our legal committee, and planning subcommittee, thank y'all,  
11 collectively, for all of the hard work that y'all have done. And  
12 Commissioner Steen, Jamey, although he's not physically here, he was  
13 affected by the Hurricane Debby in Florida. So, he has been desperately  
14 trying to get home back to Texas for about three days and had a lot of  
15 flight issues and so that's why he is not here. But, definitely, he put  
16 in a lot of hard work as he, out of all of the Commissioners, is on two  
17 subcommittees. So, we are grateful for Jamey's hard work.

18 AGENDA ITEM XVI. AND XVII.

19 (The Commission did not meet in Executive Session)

20 AGENDA ITEM XVIII.

21 CHAIRMAN RIVERA: So, with that, I believe that concludes all  
22 of our businesses. Is there a motion to adjourn?

23 COMMISSIONER FRANZ: I move.

24 CHAIRMAN RIVERA: Okay, we have a second?

25 COMMISSIONER SMITH: Second.

26 CHAIRMAN RIVERA: Okay. All in favor say aye.

(Chorus of "Ayes")

CHARIMAN RIVERA: We are adjourned. Thank you everyone.

(Meeting concluded)