

SUBJECT: Repealing the total lottery prize limit

COMMITTEE: Licensing and Administrative Procedures — favorable, without amendment

VOTE: 6 ayes — Wilson, Yarbrough, Flores, Goolsby, J. Moreno, A. Reyna
0 nays
3 absent — Haggerty, D. Jones, Palmer

WITNESSES: For — Rick Johnson, Texas Food Industry Association and Texas Association of Lottery Retailers; James E. Hosker
Against — None
On — Toni Smith, Texas Lottery Commission

BACKGROUND: In 1997, the Legislature enacted HB 4 by Craddick and Junell, revising state taxes and public education finance, which lowered the share of lottery revenue awarded as prizes from 57.45 percent in fiscal 1997 to 52.95 percent in fiscal 1998, then 52.45 percent thereafter. Government Code Sec. 466.015(d) limits the total amount of lottery prizes paid out by the Texas Lottery Commission in any fiscal year to gross revenue from ticket sales multiplied by the percentage amount of lottery prizes for all lottery games in fiscal 1997 (57.45 percent) minus 5 percent of gross lottery revenue:

Total Prize Payout = (Total Sales) x 57.45% (% of Prizes Awarded in 1997) - (5% of Total Sales)

The executive director of the Lottery Commission can set the prize payouts of individual lottery games at any level, as long as the total amount of prizes does not exceed 52.45 percent of revenue from ticket sales. The Texas Lottery Commission limits awards for online games such as Lotto Texas and Cash Five to 50 percent of gross revenue, while the limit for awards for instant or “scratch off” games currently is 52 percent, to account for the existing stock of instant tickets with higher payout percentages.

DIGEST: HB 844 would repeal the limit on the total amount of lottery prizes. The

executive director of the Lottery Commission would be able to set the prize payouts on individual lottery games without regard to any total limit.

HB 844 would take effect September 1, 1999.

**SUPPORTERS
SAY:**

Since the prize limit was enacted in 1997, sales for all lottery games have decreased, with instant ticket sales decreasing the most. From fiscal 1997 to fiscal 1998, overall sales decreased 17.5 percent, while instant ticket sales decreased 23.58 percent. The Lottery Commission projects that sales in fiscal 1999 will decline by another 8 percent. Prior to the enactment of the prize limit, lottery sales had increased at least 10 percent each year for the three previous years. The decline in sales is directly related to public knowledge that the Lottery Commission awards a smaller share of total revenue as prizes.

HB 844 would allow the executive director of the Lottery Commission to return the total prize payout to the 57.45 percent level in the formula that existed before the prize limit was enacted. The prize payout for instant tickets could be raised from the current 52 percent to the pre-limit amount of 62 percent.

The increase in total prize amounts would change the negative public perception of the lottery and increase sales by approximately 12.9 percent for fiscal 2000, according to the Lottery Commission, from \$2.9 billion to \$3.3 billion. While gross revenues would increase, state revenue would drop initially in fiscal 2000 because the state's percentage share of gross revenue would decrease. However, as overall sales rebound, the state's revenue from the lottery also would increase substantially by fiscal 2001 and beyond. The Lottery Commission estimates that the Foundation School Fund, to which lottery revenue is dedicated, would receive an extra \$859 million over the next five fiscal years if the existing limit were removed.

While the intent of the prize limit was to claim more lottery revenue for the state, the result was a loss of revenue due to decreased ticket sales. The only effective way to increase lottery revenue to the state is by increasing overall lottery sales. States like Georgia and Indiana experienced similar sales drops after their lottery payout percentages were decreased. Lottery sales rebounded in those states once payout percentages were returned to their previous levels.

There was no limit on the total amount of prizes from the inception of the

lottery in 1992 until 1997. A statutory limit on prize awards is not required for the operation of a successful and efficient lottery. If there is a going to be a lottery in Texas, it should be run in a way that maximizes the revenue to the state.

OPPONENTS
SAY:

Lottery sales have decreased because more people have realized that the odds of winning are against them and that gambling is a bad investment, not because the prize limit was lowered slightly. Also, the novelty has worn off, as has been the experience in most states that instituted a state lottery.

Raising lottery prize amounts only would entice more people to gamble and eventually cost the state more as the problems inherent in gambling exert both a social and financial toll. The state should not encourage more people to gamble by increasing lottery prize totals even if it does mean more revenue for the state.

There must be some reasonable limit on the total prize amount to ensure the solvency of the lottery system. Without a limit, prize payouts could even exceed the revenue collected from ticket sales.

NOTES:

The companion bill, SB 219 by Armbrister, has been referred to the Senate Finance Committee.