TEXAS DEPARTMENT OF LICENSING & REGULATION

Executive Office • PO Box 12157 • Austin, Texas 78711 • (512) 463-6599

www.tdlr.texas.gov

FY 2026 Q4 Report to the Legislative Budget Board on Lottery Transition, per HB 500 (89R)

September 15, 2026

Background

House Bill (HB) 500, Section 8.03(c), of the 89th Regular Legislative Session requires a quarterly written report to the Legislative Budget Board on the status of the transition of the Texas Lottery Commission to the Texas Department of Licensing and Regulation pursuant to Senate Bill (SB) 3070. This quarterly report covers the period from **June 1, 2026, through August 31, 2026.**

Phase I (June 2025 through September 1, 2025) Complete

- All full-time equivalent employee positions at TLC became positions at TDLR.
- All functions and activities performed by TLC relating to the state lottery and regulation of charitable bingo were transferred to the Texas Commission of Licensing and Regulation (TCLR) or TDLR as applicable.
    - Rules, policies, procedures, decisions, or forms adopted by TLC became TDLR's.
    - Complaints, investigations, and other proceedings before TLC were transferred without change to TDLR.
- TDLR assumed the position of TLC in all actions or proceedings to which TLC is a party.
- A license, permit, certification, or registration in effect that was issued by TLC is now continued as TDLR's.
- All money, contracts, leases, property, and obligations of TLC were transferred to TDLR.
- The unexpended and unobligated balances of any money appropriated by the legislature for TLC was transferred to TDLR.

Phase II (September 1, 2025, through August 31, 2026) In Progress

- Amend the existing contract for lottery operations and service to extend for no more than two years beyond the expiration date of the current contract (8/31/2026). Complete
- Draft and issue Request for Proposal to re-procure lottery operations contract. Complete
- Initiate an independent review of each existing contract of TLC to determine whether to renew, amend, or terminate the contract. Complete
- Integrate administrative functions (Human Resources, Information Technology, Finance, Procurement/Contracting). In Progress
- Benchmark legacy TLC program performance. Complete

- Appoint members to the Lottery Advisory Committee. In Progress
- Appoint members to the Bingo Advisory Committee. Complete
- Transfer legacy TLC Property to TDLR and migrate data from the State Property Accounting system (SPA) to TDLR CAPPS. Complete
- Continue to look for administrative efficiencies and opportunities for integration:
    - Merging policies or procedures. In progress
    - Identifying organizational efficiencies. In progress
    - Cross-training staff to ensure functional readiness. Complete
    - Combining duplicative processes. In progress
    - Improving agency-wide communications. Complete

Phase III (September 1, 2026, and later)

- Not later than December 1, 2026, submit Annual Report on Lottery Operations. In Progress
    - Lottery revenue, prize disbursements, and other expenses
    - Comprehensive Business Plan
    - Trends and issues related to violations of state laws under TDLR's lottery and bingo jurisdiction
    - Comparison of gross receipts and net proceeds from bingo operations
    - Biennial recommendations to the legislature on emerging trends, technological advancements, regulatory developments, and market dynamics affecting the lottery and bingo industries.
- Not later than December 1, 2026, submit to the Sunset Advisory Commission and each standing committee of the legislature with primary jurisdiction over the state lottery or bingo programs any legislative recommendations necessary to improve the lottery or bingo programs. In Progress.
- Cooperate with State Auditor's Office for completion of first annual audit required by Section 466.0171, Government Code, no later than August 31, 2028. Not Started
- TDLR 3.0. TDLR leadership has successfully integrated Lottery and other programs in recent years and is recognized as a resource for legislative leadership when programs need to be rehabilitated or redirected. As we integrate functions and people, we are developing a foundation for future integrations. TDLR is documenting the blueprints that have been effective in integrating other programs throughout the agency's history. Lessons

learned and best practices identified through SB 3070 implementation will be used in the future. In Progress

Section I - Milestones

Lottery Operations

- Draft rules addressing key SB 3070 mandates, including the 100-ticket purchase limit, retailer terminal restrictions, and age verification protocols are currently in development. These rules will be presented to the TCLR at their October 28 meeting. The agency has already taken action to implement these mandates.
- TCLR approved the first 5 members of the 9-member Lottery Advisory Committee. Vetting is ongoing for the remaining applicants, with further appointments under review. The Commission appointed Kimberly Kiplin as chair on July 28, 2026. The first meeting of the LAC was held July 15, 2026, and the next meeting will be held September 22, 2026.
- Successfully drafted and posted the Lottery Operator Request for Proposals (RFP), with a closing date of July 27, 2026.
- Initiated work on the new Annual Report; development is underway and progressing to ensure all statutory requirements from SB 3070 are fully incorporated.
- FY2025 benchmark of legacy lottery program, including a broad range of qualitative and quantitative indicators and collected evidence for future comparative analysis.

Charitable Bingo

- Presently, Lottery Account 5025 finances and supports Charitable Bingo Operations Division indirect administration. TDLR has developed a legislative request to pay those costs from collected bingo prize fees. This would allow the agency to separate Bingo indirect administrative support from the Lottery program, which the Sunset Advisory Commission has flagged as statutorily problematic under Govt Code Ch. 466.355.
- Bingo Advisory Committee complete and has convened four meetings since the transfer; next meeting September 17, 2026.

Human Resources

- Completed the agency's Telework Plan for publication on the TDLR website.

Finance

- Contract Report Writer: Building CAPPS financial reports to mirror prior accounting software reports. This will ensure all data elements specific to

Lottery and Bingo are captured and built in usable formats to satisfy reporting needs.

- Continued Integration: Sections within the Office of the Controller are beginning to cross train tasks from each legacy agency. Additionally, all procedures are being reviewed for parallel or duplicative practices and agency policy differences. Integrated recommendations are being implemented as discovered, researched, and evaluated by executive leadership.

Information Technology

- Microsoft Integration. We have obtained informal cost information to integrate the two legacy Microsoft accounts into one TDLR account and to eliminate the @lottery.state.tx.us domain. The Statement of Work (SOW) has been written and submitted to the Department of Information Resources (DIR) for review. The SOW will be out for bids in the next 60 days.
- IT Operations. Researching opportunities to procure and standardize some IT enterprise tools including Help Desk Ticketing and Application Monitoring. These tools can be used to help standardize operations across the IT division.
- Data Governance. The agency has adopted a single tool for data cataloging across the agency to simplify future data governance and analytics initiatives.

Administration

<u>Facilities Operations</u>

- Considerable progress continues with elimination and integration of the TDLR Warehouse with the Lottery and Charitable Bingo Operations Warehouse. All warehouse operations, inventory, equipment, and associated services will be relocated or decommission in a phased approach prior to February 28, 2027.
- Close collaboration continues between Texas Facilities Commission (TFC) and TDLR on agency relocation from the Ernest O. Thompson and North Campus locations to the under-construction Lavaca Building as Phase II of the Capitol Complex Project. The project is on track for completion and move-in by September 1, 2027, with an impact on all agency programs.

<u>Business Operations</u>

- TDLR continues integration, restructuring, and recertification of its Records Retention Schedule for all agency programs to ensure compliance with the State's requirement for a single, unified Records Retention Schedule.
- Assessment of a single, unified, automated solution for agency-wide procedures tracking coordination continues in alignment with agency integration plans.

<u>Contracts and Purchasing</u>

- Considerable progress continues with procurement of Lottery Operations and Services as replacement to the existing contract.
- TDLR refined the TDLR Contracts Portfolio to include agency contract metrics.

General Counsel

- Making organizational changes to integrate two legal offices, including open records and the GovQA open records platforms. Integrated projects and programs, including rulemaking and contracts. Filling vacancies is a priority, especially for senior level staff (Deputy General Counsel).
- All required rulemaking continues to be tracked and staged for promulgation through TCLR and the Texas Register. Most rules will be adopted by November 2026.
- Determining new goals to assist agency divisions with timely and appropriate legal assistance and communications continues to be a priority.

Strategic Communications

Effective April 1, 2026, lottery media relations are fully integrated into the Office of Strategic Communications, reinforcing a unified communications strategy and coordinated external engagement.

Texas Commission on Licensing and Regulation Actions

- The Texas Commission of Licensing & Regulation appointed Kimberly Kiplin as chair of the Lottery Advisory Committee at their July 28, 2026 public meeting.

Sunset Advisory Commission Recommendations

- **Recommendation 1.3, Adopted - Modify statute to require the Bingo Advisory Committee and improve its effectiveness.** Draft rules will be adopted by November 1, 2026.
- **Recommendation 1.4, Adopted as Modified — Require the commission to establish a Lottery Advisory Committee and specify the qualifications for three committee members.** Five of the 9 members have been appointed by the commission, constituting a quorum. The first LAC meeting was held on July 15, 2026.
- **Recommendation 1.5, Adopted — Consolidate four of TLC's reporting requirements.** Drafting of the report sections is ongoing. The report remains on schedule for the December 1, 2026 deadline.
- **Recommendation 2.3, Adopted — Require CBOD to include compliance history in its audit risk assessment.** Complete.
- **Recommendation 2.4, Adopted — Require CBOD to work with the Bingo Advisory Committee to establish appropriate inspection criteria. BAC created a subcommittee at the April meeting to provide recommendations.** The Bingo

Advisory Committee created a subcommittee at the April 2026 meeting to provide recommendations. Recommendations improving the inspection criteria are being drafted.

- **Statute Change. Authorize the commission to place a commercial lessor license on administrative hold.** Draft rules will be adopted by November 1, 2026.
- **Statute Change. Require culpability for the sale of a lottery ticket to an individual younger than 18 years of age.** Draft rules will be adopted by November 1, 2026.
- **Statute Change. Require the Sunset Commission to conduct a limited-scope review of the state lottery.** To be conducted during 20228-29 biennium.

Section II - Unresolved Transition Issues

The IT team will begin to merge the Microsoft accounts of the two agencies. We have identified funding within the agency to achieve this goal without additional requesting additional appropriations. Until the systems are merged, the agency will operate with two domains: @TDLR.texas.gov and @Lottery.state.tx.us.

Section III – Costs (Anticipated or Realized) Cumulative June 1, 2025 – August 31, 2026

- Transition Team Salaries: $375,066.38
- Salary leveling: $839,455.45
- Fiber Connection for initial connection between EOT and GHWB buildings (one time): $3,115
- Ongoing monthly charge for fiber connection between EOT and GHWB buildings: $1,500 x 12 months = $18,000
- Executive Staff Leadership training for change management (one time): $11,000
- ✓ **Total Costs: $1,246,636.83**

Section IV - Staffing and Administration Changes

- Deanne Rienstra has been selected as General Counsel
- Doug Jennings, Deputy General Counsel, left the agency

Section V – Legislative or regulatory actions required to facilitate the transition

None this period.