

STATE of TEXAS  
HOUSE of REPRESENTATIVES



GARNET F. COLEMAN  
STATE REPRESENTATIVE  
DISTRICT 147

October 18, 2010

The Honorable Pete P. Gallego  
Chairman, Select Committee on  
Government Efficiency & Accountability  
Texas State Capitol  
Room 4N.9  
Austin, Texas 78768

Chairman Gallego:

As you know, this past summer the Legislative Study Group held a forum on various gaming proposals. It did not take very long for the discussion to turn to problematic issues surrounding the Texas Lottery.

During the LSG hearing, Chairman Dunnam observed, *"If we're going to go to a competitive bidding situation then it needs to be a competitive, free market system and not something that is rigged on the inside, particularly if we are going to grant regional monopolies, otherwise we will grant this license and it will be back for renewal or whatever it is and no one will compete just like we are seeing with the lottery – no one is competing because they can't."*

I share Chairman Dunnam's frustration regarding the lack of competition for the Texas Lottery contract. As you know, one company (Gtech) has held the Lottery contract since the Legislature first authorized the Lottery in 1991. Gtech's contract (worth approximately \$100 million per year) continues to be one of the most problematic and questionable contracts in state government.

For example, the Texas Lottery Commission issued RFP 362-10-0001, a "Request For Proposals for Lottery Operations and Services." According to an Associated Press article dated January 23, 2010, *"A consulting company that helped Texas write bidding rules for its upcoming lottery operator contract was simultaneously getting paid by GTECH Corp., the current vendor that intends to compete again for the state's lucrative lottery deal. The dual role of consultant Gartner Inc. is raising questions about a potential conflict of interest and whether GTECH has a competitive advantage over other lottery companies bidding this year for Texas' contract, one of the nation's largest. The stakes are high: Winning the Texas Lottery contract can bring a company more than \$100 million annually."*

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COUNTY AFFAIRS COMMITTEE CHAIR, CALENDARS COMMITTEE,  
PUBLIC HEALTH COMMITTEE, SELECT COMMITTEE ON FEDERAL ECONOMIC STABILIZATION FUNDING

Empirical evidence suggests the Texas Lottery continues to underperform while the state continues to pay Gtech approximately \$100 million per year to operate it.

In September, the *Austin American Statesman* published a comprehensive article on the Texas Lottery that was exceptionally enlightening and troubling. Below are some very disturbing statistics that were published by the *Austin American Statesman* in a September 4, 2010, article titled "*Texas Lottery: A different game than state was sold two decades ago - State is getting a smaller share of the pot these days as fewer players - many who can't afford it - are spending more.*"

- *In 1994, 70 percent of adult Texans reported buying tickets. Today, it's closer to 40 percent, meaning the lottery must extract more dollars from fewer people to keep raising the same amount of money. In 2004, the state's estimated 9 million lottery players each spent an average of \$390. Last year, an estimated 7.4 million players averaged \$500 each.*
- *The state has become increasingly dependent on instant scratch-off games, which today generate 75 cents of every lottery dollar. Yet such games are more likely to be played by "less educated and lower income" residents, according to the Texas Lottery Commission's research. The latest analysis found that "unemployed (players) were more likely to purchase scratch off tickets than employed and retired" players.*
- *Because the state's take is smaller on instant tickets, it must sell more to make the same profit. Last year, the lottery sold nearly \$700 million more in tickets than in 1998 — and gave schools \$160 million less.*
- *As a percentage of education spending, the lottery's contribution is shrinking. In 1996, lottery proceeds paid for about two weeks of schooling for Texas students. This year, the money raised by the lottery will barely cover three days.*

I am writing to ask that your Select Committee immediately investigate exactly what the state is getting for the \$100 million per year we are paying to Gtech. Why are fewer people playing the lottery? Why are Texans who can least afford it spending more, proportionally, on tickets? Are low-income Texans being targeted deliberately? If more tickets are being sold, why are schools getting less money?

Recently, Illinois selected a private company to manage its lottery. The winning company, Northstar Lottery, is made up of three existing vendors to the Illinois Lottery, one of which is Gtech. On September 15, 2010, the Associated Press reported that in its Illinois bid, Northstar, "*promised to generate \$4.8 billion in net income over the first five years of its 10-year contract. That is \$1.1 billion more than the state projected it could generate on its own, said state Revenue Director Brian A. Hamer.*" If Gtech can promise Illinois a significant increase in revenue, Why is it not making similar promises to the state of Texas? In fact, why does the Texas Lottery's contribution to our state's overall spending on public education continued to shrink?

Finally, given the fact that Gtech was paying a consultant who was simultaneously helping write the Lottery RFP, I believe we need to investigate the entire Lottery RFP process. This process clearly seems questionable and problematic.

I believe both the Lottery contract, and its overall performance, offer an excellent opportunity for us to find either savings or additional revenue to help alleviate the \$18-\$21 billion budget deficit our state is currently facing. I hope your Select Committee will consider this request and immediately begin to investigate how we can work toward making the Lottery more efficient and accountable. Please do not hesitate to let me know if you have any questions or concerns.

Sincerely,

A handwritten signature in black ink, appearing to read "Garnet F. Coleman". The signature is fluid and cursive, with a large initial "G" and "C".

Garnet Coleman  
State Representative, District 147

cc: The Honorable Jim Dunnam