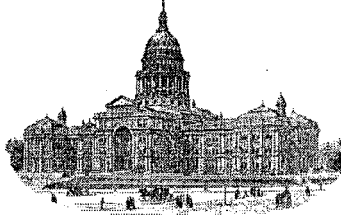


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November 15, 2010

Mr. Gary Grief, Executive Director
Texas Lottery Commission
611 E. 6th Street
Austin, Texas 78701

Via Mail & Fax to 512.344.5080

Dear Mr. Grief:

I recently received the enclosed letter from Chairman Garnet Coleman regarding several issues of concern with respect to the Texas Lottery and its primary vendor. With legislators about to enter a session where a projected budget deficit is rapidly approaching an unprecedented \$30 billion, decision-makers must hold all vendors accountable and ensure they produce at an optimum level.

The contract which your agency manages with Gtech is rather large. The implications of this \$100 million contract to operate the lottery are literally in the billions of dollars. Because of the dollar amounts at stake, I have begun researching the issues raised by Chairman Coleman. I am writing you to request more information.

The letter I received from Chairman Coleman referenced a newspaper article that essentially made the following conclusions: (1) fewer people are playing the lottery; (2) those Texans who can least afford to play the lottery are disproportionately represented among the players; and (3) even though more tickets are being sold, somehow our schools are receiving less money.

For your convenience, the specific article Chairman Coleman referenced was published by the *Austin American-Statesman* on September 4, 2010, and 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*". The specific statistics that were most disturbing are quoted directly from that article below.

- *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.*

If the picture painted by this data is accurate, this represents a serious problem, especially considering the current budget deficit.

Legislators must have access to current and accurate information in order to make informed decisions regarding all available state revenue during the next session. Hence, I write to request information from you and the Texas Lottery Commission that essentially falls into three separate categories.

- 1) I want to be sure your recent RFP process was fair and untainted by even the appearance of impropriety. I was surprised to read that the same company that you hired to help write the RFP was also being employed by the current operator of the lottery (who is also bidding for the new contract). Given this set of facts, I want to guarantee that no bidder obtained an unfair advantage over others. Please send me any documentation you have available regarding the RFP process, including the individuals who helped write the process. I ask that you include all documentation which shows weaknesses in the process that might allow for inappropriate conduct or conflict of interest in the RFP process.
- 2) If it is your opinion that the current operator is operating the lottery at an optimum level, please send me any information and data you deem relevant to both to defend and to counter that argument. I would like from you some context to the disturbing numbers and data points referenced above in the *Austin American-Statesman* article. I'd also like some explanation as to why it appears that you are relying on poorer Texans to spend more money on lottery tickets, only to then give less money to our schools. If these figures are accurate, what is the current vendor doing to rectify this trend?

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- 3) If the current operator of our lottery can promise more revenue to a different state at a lesser cost, why doesn't Texas have that same deal? Who was responsible for negotiating this contract? Please give me your thoughts on how Texas, during these dire economic times, can get more for less, especially since it appears that Gtech is offering a better deal elsewhere.

With the elections behind us and the legislative session right around the corner, I would appreciate a prompt response to this request so I can quickly determine whether this issue should be more fully addressed by the Select Committee on Government Efficiency & Accountability.

Thanks in advance for your response.

Sincerely,

A handwritten signature in black ink, appearing to read "Pete P. Gallego". The signature is written in a cursive style with a large, looping "G" at the end.

Pete Gallego

CC: Chairman Garnet Coleman