



TEXAS DEPARTMENT OF LICENSING & REGULATION

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

www.tdlr.texas.gov

FY2026 Q1 Report to the Legislative Budget Board

December 22, 2025

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 (LBB) on the status of the transition of the Texas Lottery Commission (TLC) to the Texas Department of Licensing and Regulation (TDLR), pursuant to Senate Bill (SB) 3070 of the 89th Regular Legislative Session.

This quarterly report is provided to the LBB with the status on the transition for the period covering September 1 through November 30, 2025.

The transition includes three phases.

Phase I (June 2025 through September 1, 2025)

- 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)

- 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).
- Draft and issue Request for Proposal to re-procure lottery operations contract.
- Initiate an independent review of each existing contract of TLC to determine whether to renew, amend, or terminate the contract.

- Integrate administrative functions (Human Resources, Information Technology, Finance, Procurement/Contracting).
- Benchmark legacy TLC program performance.
- Appoint members to the Lottery Advisory Committee and the Bingo Advisory Committee.
- Transfer legacy TLC Property to TDLR and migrate data from the State Property Accounting system (SPA) to TDLR CAPPS.
- Continue to look for administrative efficiencies and opportunities for integration:
 - Merging policies or procedures
 - Identifying organizational efficiencies
 - Cross-training staff to ensure functional readiness
 - Combining duplicative processes
 - Improving agency-wide communications

Phase III (September 1, 2026 and later)

- Submit Annual Report on Lottery Operations including:
 - Comprehensive Business Plan
 - Lottery revenue, prize disbursements, and other expenses
 - 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
- Make biennial recommendations to the legislature on emerging trends, technological advancements, regulatory developments, and market dynamics affecting the lottery and bingo industries.
- 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.
- Cooperate with the State Auditor's Office for completion of first annual audit required by Section 466.0171, Government Code, no later than August 31, 2028.

Section I - Milestones

Lottery Operations

- 100-ticket purchase limit established, required vendor programming complete, and all

Texas retailers notified. Related rules are scheduled for adoption by TCLR in March 2026.

- Limits on lottery vending machines, lottery computer terminals, and other equipment dedicated to printing lottery tickets implemented with few exceptions, such as for temporary promotional events. Related rules are scheduled for adoption by TCLR in March 2026.
- QR code on lottery mobile app disabled (i.e., tickets can no longer be purchased within the app).
- Applications for the Lottery Advisory Committee continue to be vetted and will be brought forward for consideration by TCLR at future meetings.
- A Statement of Work (SOW) is in development to procure a third-party vendor to benchmark performance in legacy TLC for FY 2025. Benchmarking will provide a baseline against which to measure future performance.

Human Resources

- TDLR has run three successful payrolls since transition, and all issues have been resolved.
- Presently combining legacy personnel policies and practices into a single cohesive approach.
- Recruiting practices integrated and training delivered.

Finance

- TDLR's Office of the Controller has completed a reorganization and implemented a functional alignment of the full division.
- All staff new to CAPPs Financials have received training via work sessions from the Texas Comptroller of Public Accounts (CPA), and/or training sessions from Legacy TDLR staff.

Information Technology

- Staff continue to work on integrating our two Microsoft tenants/accounts. Cost considerations have led us to identifying workarounds rather than moving to a single, shared Microsoft account. We are researching opportunities and costs to fully merge our Microsoft environment. There are no issues with the interconnection of the systems that enable us to pay employees, vendors, and lottery prize winners.
- The primary focus continues to be on staff that have direct needs to access data that crosses the two networks.
 - Many administrative functions require access to information from both licensing/regulation and lottery/bingo.

- These resources tend to be in Finance, General Counsel, Human Resources, and to a lesser extent IT.
- The IT Team hosted a listening session with directors to uncover challenges faced by staff in day-to-day operations.
 - The outcome primarily confirmed our understanding of the existing challenges.
 - One of the topics that was specifically discussed was better calendar viewing and sharing to avoid being double-booked.

Procurement and Contracts

- Agency executive staff and the transition team continue to meet with vendors and stakeholders with an interest in the re-procurement of the Lottery Operations contract. The three main vendors (Brightstar, Interlot, and Scientific Games) scheduled facility and headquarters tours to showcase their approach to deliver lottery services. The quiet period for the procurement begins in mid-December 2025. All three vendors have provided comments on the previous procurement and suggestions for improvement.
- The Lottery Operator Services Contract was renewed for 9/1/26 through 8/31/28.

General Counsel

- Working to consolidate our procedures and making changes needed to consolidate our two GovQA open records platforms.
- We have consolidated our rulemaking procedures. All required rulemaking is being tracked and staged for promulgation through TCLR and the Texas Register. Most rules will be adopted by March 2026.

Legacy TLC Physical Assets

PCs, printers, servers, warehouse equipment, mailroom equipment, draw studio equipment, and media studio must be inventoried and the data transferred from SPA to TDLR CAPPS. That work has been underway between TDLR and CPA since November 2025.

TCLR Actions

October 28, 2025

- Lottery Operations Contract. Approved a motion to extend TDLR’s contract for Lottery operations and services from 9/1/2026 to no later than 8/31/2028.
- Lottery Advisory Committee Rules. Adopted rules that set forth the parameters the Lottery Advisory Committee and the Bingo Advisory Committee (Follow up to emergency rules adopted 8/21/25).

- Received an annual report and supplemental information regarding the status of major and prime contracts related to TDLR's Texas Lottery and Charitable Bingo programs, as required by 16 T.A.C. §140.105(h).
- Approved extension of the Lottery's Dallas Cowboys trademark license and promotional agreements.
- Received overview of FY 2025 operational performance and accomplishments of the former TLC's Lottery and Charitable Bingo programs.
- Received an internal audit report on the former TLC for FY 2025.
- Adopted the internal audit plan for TDLR's Lottery and Charitable Bingo programs for FY 2026.
- Received an update on transition-related activities.

September 4, 2025

- Appointed eight members to the Bingo Advisory Committee.

Sunset

All relevant Sunset recommendations and management actions for legacy TLC adopted during the last review are being tracked and implemented.

Section II - Unresolved Transition Issues

The IT team is currently working on options to merge the Microsoft accounts of the two agencies. 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) from September 1, 2025 through November 30, 2025

- Transition Team Salaries: \$175,767.98
- Salary leveling: \$266,106.51

Section IV - Staffing and Administration Changes

- TDLR was reorganized on September 1, 2025, to reflect the transfer of TLC and to achieve administrative integration of key areas such as human resources, finance, information technology, contracts and procurement, facilities and risk management, advisory boards, and government relations. Organizational charts reflecting this change are attached.

- The Chief Financial Officer reorganized the Office of the Controller to reflect a functional alignment (Budget, Accounting, Fiscal Analysis) rather than programmatic approach (Lottery / Licensing and Regulation).
- Key Staff Hirings: Rose Wheeler Demerson, Director of Administration; Caroline Espinosa, Director of Strategic Communications.

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

None to report for this period.