



FY2026 Q2 Report to the Legislative Budget Board, HB 500 (89R)

March 23, 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 (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 December 1, 2025, through February 28, 2026.

The transition includes three phases.

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)

- 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. **In Progress**
- 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. **In Progress**

- Appoint members to the Lottery Advisory Committee and the Bingo Advisory Committee. **In Progress**
- 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)

- Submit Annual Report on Lottery Operations. **In Progress**
 - 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 State Auditor’s Office for completion of first annual audit required by Section 466.0171, Government Code, no later than August 31, 2028.
- TDLR 3.0. TDLR leadership has successfully integration Lottery and other programs in recent years and recognizes are 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 working on the current integration while 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**
- The agency’s strategic planning efforts will incorporate the “best of both” approaches from legacy TDLR and TLC. We will have several in-person public meetings (D/FW, Houston, San Antonio) and a virtual meeting in mid-April.

The strategic plan is due in June and will include shared goals and initiatives reflecting the agency’s priorities for the 5-year period 2027-2031. **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 under internal review. These will be presented to the TCLR in July.
- TCLR has approved the first three members of the Lottery Advisory Committee. Vetting is ongoing for the remaining applicants, with further appointments expected at future meetings. Once membership reaches five, we will have a quorum and will begin holding meetings.
- Successfully completed the drafting phase for the Lottery Operator Request for Proposals (RFP), ensuring alignment with new legislative requirements.
- 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. The agency has elected to pursue this work in-house after a third-party solicitation revealed a cost that significantly exceeded the available budget.

Charitable Bingo

- At the Bingo Advisory Committee’s February 9, 2026, meeting, CBOD began the process of implementing Sunset Recommendation 2.4 and new Tex. Occ. Code § 2001.557 (c) regarding a requirement for TDLR to consult with the Bingo Advisory Committee to collaboratively define and implement fiscal accountability criteria for inspection of premises.
- We notified all licensed bingo equipment and supply manufacturers who have a surety bond on file of the SB 3070 requirement to amend the bond and name TDLR as the payee. We have received all amended bonds. Implementation of § 77 (f) in SB 3070 is complete.
- TDLR is considering how Charitable Bingo Operations finances and supports indirect administration to see if there are ways to tap self-generated bingo revenue for that purpose. This would allow us to separate Bingo indirect administrative support from the Lottery program, which has long been a goal of legacy TLC.

Human Resources

- Redesigned the job application process using the new modernized state application and resumes to conform with a broader statewide effort led by the Texas Regulatory Efficiency Office to make government more efficient and improve TDLR’s competition with the private sector.
- Assisted Executive Director with finalizing leadership selections from an interim transition basis to further stabilize and strengthen divisions and agency operations.

- Assisted Commission HR Workgroup with redesigning the job evaluation instrument for executive leadership due to the agency's growth and expanded transition responsibilities.

Finance

Engine Hotel Reservation: Direct Billing. Engine has approved Lottery & Bingo staff who travel to direct bill all Engine hotel reservations, integrating with legacy TDLR practice.

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 Texas.lottery.state.tx.us domain. We have identified partial funding within the agency and will seek leadership guidance on how to obtain the remainder. Staff are working on a Statement of Work (SOW) so that when the opportunity exists, the agency is prepared to move forward.
- **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.
- **Deployment.** Creating a combined report for Lottery and Licensing for the Information Resources Deployment Review (IRDR). The IRDR assesses how each state agency's information resources deployment supports their agency's mission, aligns with statewide goals outlined in the State Strategic Plan (SSP) for Information Resources Management, and complies with state technology-related statutes, rules, and standards.
- **Security.** Consolidating security processes including standardizing the security policy manual and training for all TDLR personnel. Consolidated security tools to increase visibility across the entire agency and training tools for education across the agency.

Procurement and Contracts

- Considerable progress continues with development of the Request for Proposal (RFP) to procure Lottery Operations and Services as replacement to the existing contract. Based on completed (known) progress to date, the procurement project is approximately five months ahead of schedule.
- Successfully executed three amendments for each of the three Scratch Ticket Manufacturing and Services contracts, adding innovative printing capabilities through an existing contractual option with no cost increase to any of the existing contracts.

Strategic Communications

- On February 27, the agency announced an organizational alignment within the Office of Strategic Communication to support the continued integration of Lottery and Charitable Bingo. Beginning April 1, Lottery media relations will be fully integrated into the Office of Strategic Communication, reinforcing a unified communications strategy and coordinated external engagement.

General Counsel

- Continue to consolidate our procedures and make changes needed to integrate our two legal offices, including open records and the GovQA open records platforms.

- All required rulemaking continues to be tracked and staged for promulgation through TCLR and the Texas Register. Most rules will be adopted by July 2026.
- Determining new goals to assist agency divisions with timely and appropriate legal assistance and communications.

Legacy TLC Physical Assets

Working with the Comptroller’s Office, TDLR Controller and Facilities teams concluded the data conversion of the agency’s physical asset tracking information from the State Property Accounting system to the CAPPS production environment this week.

Texas Commission on Licensing and Regulation Actions

December 16, 2025

- Approved the department’s request to begin procurement for Texas Lottery Operations and Services contract
- Received update on the completion of the independent review of the Texas Lottery’s existing contracts as required by SB 3070 (no irregularities found)
- Approved amendment, renewal or extension of contracts for Texas Lottery scratch ticket manufacturing and services

February 18, 2026

- Approved agency’s recommended Bingo Advisory Opinion Request 2026-1112-0001
- Approved Lottery Advisory Committee member representing a beneficiary (education).

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 exploring 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 June 1, 2025 through February 28, 2026

- Transition Team Salaries: \$278,816.30
- Salary leveling: \$472,111.68
- Fiber Connection for initial connection between EOT and GHWB buildings: (one time) \$3,115.28
- Ongoing monthly charge for fiber connection between EOT and GHWB buildings: \$1,500.00 x 10 months = \$15,000

- Executive Staff Leadership training for change management: \$11,000
- ✓ **Total Costs: \$780,043.26**

Section IV - Staffing and Administration Changes

- Natalie Smith hired as new Assistant Human Resources Director
- Nicole Oria, Transition Special Counsel, departed TDLR for HHSC

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

None to report for this period.