



Tom Stewart
Executive Director, Texas Charity Advocates
Texas Sunset Advisory Commission Prepared Testimony
Tuesday, August 14, 2024

My name is Tom Stewart, and I am the executive director of Texas Charity Advocates.

Founded in 2005, TCA's mission is to promote and grow the game to benefit charity members, bingo customers, and those they serve in their communities.

TCA has approximately 300 members. Roughly 90 percent of those members are non-profits that conduct bingo to generate revenue that funds their work in cities and towns across Texas.

Today, I'd like to reinforce TCA's positions on the Sunset staff's recommendations regarding the Charitable Bingo Operations Division and the Texas Lottery Commission.

First, we agree with:

- Modifying the statute to require the Bingo Advisory Committee and improve its effectiveness. One key step toward increasing its effectiveness is to allow the BAC to discuss issues and ideas outside the scope of existing statute. This broader interpretation would allow the years of experience and expertise held by BAC members.
- Directing the agency to establish a plan prioritizing IT updates and eliminating paper-based processes in CBOD.
- Directing the agency to improve data practices, including data validation and other quality controls.
- Continuing the Texas Lottery Commission for 12 years and removing the Sunset date of the agency's statutes.

Second, we disagree with:

- Modifying the statute to clarify TLC's organizational hierarchy. The current hierarchy works well and provides more engagement between the regulator, its staff, and the regulated.
- Eliminating the licenses for manufacturers and distributors of bingo materials. The unintended consequence of this step imposes a significantly higher regulatory and

financial risk on volunteer-based charities that – at their core – simply want a source of revenue to do their work. TCA’s fear is the higher regulatory risk – in the form of ensuring bingo products meets state standards (which licensed manufacturers and distributors are responsible for today) – will be too high a burden for many charitable conductors.

- We oppose both options related to grandfathered licenses. This structure was established 35 years ago in 1989. While it may not be the structure we’d propose if we started from scratch today, it has worked well. Further, grandfathered lessors have invested significant capital and time in developing charitable bingo halls; both options effectively eliminate that value. These are folks who played by the existing state law and rules. To suddenly change the rules and wipe out that value does not meet the standards of fair play we typically expect from the state.
- As a side note, I also want to correct some factual errors in the staff report. First, a grandfathered license can be transferred to someone else upon the death of the current holder. Second, a grandfathered license that is on administrative hold is required to pay an annual license fee.

Third, TCA is neutral regarding suggesting that the House Appropriations and Senate Finance committees modify TLC’s budget pattern to include an indirect administration goal.

Having said that, we strongly encourage you to heed the words of the late U.S. Senator Russell Long of Louisiana, who, as the long-time chairman of the Senate Finance Committee, noted: Don’t tax you. Don’t tax me. Tax that fellow behind the tree.

Charitable bingo was never intended as a revenue source for state or local governments. It was established to generate money for charitable organizations to serve their communities.

On average, charitable bingo produces about \$30 million annually in net proceeds (or net profits) for charitable purposes. A prize fee also generates about \$30 million for the state and local government coffers.

When you account for federal taxes on some game revenue, total government taxes and fees are far more than the revenue non-profits generate to do their work.

In other words, charitable bingo is taxed at more than 100 percent on its net proceeds or profits in the aggregate.



We strongly believe that any additional revenue for regulatory oversight should come from the State's general revenue fund or fees assessed by city or county governments.

It should not come from the pockets of non-profits or other licensees that rely on bingo for income to fund their charitable work.

Finally, the staff noted that the state's only mission – relative to charitable bingo – is regulatory oversight.

We believe promotion – similar to the lottery – is a dual mission worth considering.

Over the past eight years, TCA has conducted market research, commissioned an economic impact study, developed branding and marketing materials, and twice tested advertising – once in the Austin DMA and once statewide.

Through our initiative and resources, TCA has invested several hundred thousand dollars in self-help attempts to stem a steady decline in attendance.

Yet, attendance continues its steady – and frightening – decline. Consumer awareness remains our single greatest challenge. Despite our best efforts, we cannot achieve the scale needed for a significant and measurable impact.

We believe forging a public/private partnership – drawing on prize fees generated for the government – could produce a sizable and stable funding source to attack the awareness problem. Doing so could net a positive return to charities and the state and local governments by attracting more players to play a game that has universal appeal and helps people.

We hope you'll consider it and engage with us in a conversation.

Thank you for your time today. We appreciate the Sunset staff for their hard work and the Texas Lottery Commissioners and their staff for the work they do daily.



May 15, 2024

Texas Sunset Commission
P.O. Box 13066
Austin, Texas 78711

Dear Sunset Commission Members:

Texas Charity Advocates (TCA) is a statewide association of licensed charity bingo conductors, lessors, distributors, and manufacturers.

Founded in 2005, TCA's mission is to promote and grow the game to the benefit of charity members, their clients, and their customers. We have approximately 300 members. Roughly 90 percent are non-profits. They conduct bingo to generate revenue that funds their work in cities and towns across Texas.

We appreciate the work of the Sunset Advisory Commission staff to prepare their report and recommendations to you related to the Texas Lottery Commission (TLC) in general and the Charitable Bingo Operations Division (CBOD) specifically. We also appreciate the work done by agency staff in this process.

We look forward to having our members testify before you at a public hearing later this year. In the meantime, we offer this summary of TCA's position on the recommendations made specific to charitable bingo and its oversight by the CBOD.

First, recommendations with which **we agree** with Sunset staff:

- Modify statute to require the Bingo Advisory Committee and improve its effectiveness. We anticipate suggesting ways to improve effectiveness in this process.
- Direct the agency to establish a plan prioritizing IT updates and eliminating paper-based processes in CBOD.
- Direct the agency to improve data practices, including data validation and other quality controls.

- Continue the Texas Lottery Commission for 12 years and remove the Sunset date of the agency's statutes. Led by Chairman Rivera, TLC members are accessible and open to conversations when necessary. Commissioner Fields, in particular, has been engaged and collaborative. Finally, LaDonna Castañuela, the Director of the Charitable Bingo Operations Division and her staff do their level best to be responsive and diligent in their day-to-day operations. All have our thanks for the important role they play.

Second, recommendations where **we disagree** with Sunset staff:

- Modify statute to clarify TLC's organizational hierarchy. The current hierarchy works well and provides a higher degree of engagement between the regulator, its staff, and the regulated.
- Eliminate the licenses for manufacturers and distributors of bingo materials. The unintended consequence of this step imposes a significantly higher regulatory, and financial, risk on volunteer-based charities that – at their core – simply want a source of revenue to do their work. TCA's fear is the higher regulatory risk – in the form of ensuring bingo product meets state standards (which licensed manufacturers and distributors are responsible for today) – will be too high a burden for many charitable conductors.
- Proposed options related to lessors: **Option 1.** Treat all lessors as grandfathered lessors; **Option 2.** Convert all grandfathered lessors to regular lessors. We oppose both options. The lessor licensing structure was established 35 years ago in 1989 and has worked well. Grandfathered lessors have invested significant capital and time in developing charitable bingo halls; either option will effectively, and suddenly, eliminate the value held by lessors who played by rules established by the state. Further, converting all grandfathered lessor licenses to regular lessor licenses could eliminate virtually all charitable bingo halls in most metro areas due to the \$600/day rent limitation.

Third, **TCA is neutral** as to the issue of the House Appropriations and Senate Finance committees should consider modifying TLC's budget pattern to include an indirect administration goal. It's our understanding this recommendation could add as much as \$1.2 million to the CBOD budget needs.

It is important to note that charitable bingo was never intended as a revenue source for the state or for local government. It was established to benefit charitable organizations.

In fact, charitable bingo typically produces about \$30 million annually in net proceeds (or net profits) for charitable purposes. State and local government split revenues generated from a 5 percent fee on prizes of more than \$5. The fee is funds collected by the charitable organizations at no cost to state or local governments.

Put another way, charitable bingo is taxed nearly 100 percent on its net profits. Therefore, we strongly believe any additional revenue needed to regulate charitable bingo should come from existing prize fees (either General Revenue or from the local governments' share). It should not come from licensed entities.

Finally, as Sunset staff noted, CBD's only mission is to be the regulatory cop on the beat. Unlike the Texas Lottery, there is no promotional element to its statutory mission.

Meanwhile, data shows a steady decline in charitable bingo attendance since the lottery was authorized in the early 1990's. Between 2018 to 2023, attendance has declined nearly 30 percent.

Market research conducted by TCA in recent years shows that bingo, as a form of entertainment, is nowhere near top of mind for most Texas consumers. Yet, when asked about bingo as a form of entertainment, virtually 100 percent have a positive opinion of the game.

That clearly suggests charitable bingo has an awareness problem. That is a problem that can be addressed through paid promotional initiatives. Twice, TCA has test marketed advertising. Once on a limited scale in the Austin market using both radio and digital advertising. The other was a statewide test using digital advertising. In both cases, there were measurable and anecdotal improvements in attendance.

The challenge is finding the resources to significantly scale promotions that turn the tide on attendance declines. That scale could be achieved, however, if promotion were made part of the CBOD's statutory mission combined with a public/private collaboration to generate a high six- or low-seven figure funding source. We believe licensees would be more likely to continue contribute funding if matching resources are found. We suggest, again, that a portion of the local (not state) prize fee money as a possible source. We welcome the chance to discuss this concept further.

Again, we look forward to expanding on TCA's views in the public hearing, and we expect to reach out to individual members, and your staff, in coming days.

Sincerely,

A handwritten signature in blue ink that reads "Tom Stewart".

J. Thomas Stewart
Executive Director

cc: Texas Lottery Commission