

KANSAS RACING AND GAMING COMMISSION

AGENCY OVERVIEW
TESTIMONY PRESENTED TO
THE SENATE FEDERAL AND STATE AFFAIRS COMMITTEE
January 13, 2015
By
Richard Petersen-Klein, Executive Director

The Kansas Racing and Gaming Commission (KRGC) is the agency empowered by the Kansas Expanded Lottery Act (KELA) and the Kansas Parimutuel Racing Act to regulate expanded gaming and pari-mutuel wagering in Kansas. The Commission consists of five members appointed by the Governor and confirmed by the Senate for four year terms. Currently, the Commission has four members. The KRGC meets monthly to address regulatory matters primarily related to casino-style gaming in Kansas as pari-mutuel wagering activity remains dormant with the last racetrack closing in 2008. The members of the Commission presently consist of:

Dennis McKinney, Greensburg, Vice Chair/Acting Chair
R. Eileen King, Manhattan, Secretary
David H. Moses, Wichita
Laura McConwell, Mission

The day-to-day operations of the agency are administered by an executive director and staff. The KRGC was approved for 67.5 FTE staff for fiscal year (FY) 2015 and has submitted a revised FY 2015 budget for 72.5 FTE. The increase in FTE for FY 2015 is due to the implementation of the Gaming Machine Examination Fund (GMEF). KRGC has requested 91.5 FTE for fiscal year 2016 and fiscal year 2017. The increase in FTE for FY 2016 and FY 2017 is based on the potential that a gaming facility may commence operations as soon as the second half of calendar year 2016. Executive staff includes:

Richard Petersen-Klein, Executive Director
Brandi White, Director of Administration, Finance and Audit
Don Brownlee, Director of Security and Licensing
Dennis Bachman, Director of Information Technology and Electronic Security
Judith A. Taylor, General Counsel

The Commission neither receives funds from, nor generates funds for, the State General Fund. The KRGC is totally a fee-funded agency with operations funded by the lottery gaming facility managers that are under contract with the Kansas Lottery and vendors who pay for their licensing costs. The agency's FY 2015 revised budget is \$6.9 million, excluding the State Gaming Agency's budget, which is consolidated with the KRGC's budget for processing and approval only. KRGC has requested an enhancement of approximately \$450,000 for FY 2015 related to expenses associated with the reestablishment of the Lottery Gaming Facility Review Board for the selection of a facility operator in the southeast gaming zone. KRGC requested an additional enhancement for FY 2015 of approximately \$900,000 related to the reestablishment of

the GMEF for the cost of gaming equipment testing services as a no-limit fee fund in order to fulfill the statutory requirements of K.S.A. 74-8750(c). Gaming equipment manufacturers requesting KRGC certification of gaming equipment will fund the GMEF with deposits covering the cost of gaming equipment testing services provided by gaming equipment testing laboratories under contract with the KRGC. The Office of Budget recommended both requested enhancements. In FY 2016, the KRGC, excluding the State Gaming Agency's budget, has requested a budget of approximately \$8.6 million. The FY 2016 budget request includes three enhancements. The first is for the continuation of the Lottery Gaming Facility Review Board with expenditures totaling approximately \$450,000. The second is for an estimated \$1.6 million in expenditures for the continuation of the GMEF. The third enhancement is related to the anticipated start-up costs of approximately \$945,000 associated with a gaming facility in the southeast gaming zone. The Office of Budget has recommended all three requested enhancements for FY 2016. In FY 2017, the KRGC, excluding the State Gaming Agency's budget, has requested a budget of approximately \$8.77 million. The FY 2017 budget request includes no additional enhancement requests from the FY 2016 requested budget and does not include any expenditures related to the Lottery Gaming Facility Review Board. The Office of Budget recommended that the budgets for FY 2015, FY 2016, and FY 2017 be approved as submitted by the agency.

The KRGC's primary mission is to ensure that state-owned casino-style gaming and pari-mutuel racetrack wagering is conducted with integrity. As a regulatory agency, our chief mission is to seek compliance. The agency's regulatory duties include licensing, security, audit, electronic security, and responsible gambling.

The KRGC issues licenses for lottery gaming facility managers and their employees, and gaming and non-gaming suppliers and their employees, both pre-hire and every two years post-hire. The KRGC performs an initial background investigation on lottery gaming facility directors, key employees and owners with a greater than 0.5% ownership interest and every two years thereafter. The KRGC also performs initial background investigations on its employees. The agency received and processed 2,200 casino-related background applications in calendar year (CY) 2014. This represented a decrease from 2,600 applications received in CY 2013. Approximately 1,300 background applications were received from individuals seeking licensing for the first time in Kansas, this number is unchanged from CY 2013. Of the total background applications approximately 900 were from individuals seeking license renewal after the initial two-year license period, a decrease from 1,300 in CY 2013. The agency issued approximately 3,000 licenses to both individuals and corporations in CY 2014, including temporary permits, and permanent and renewal licenses, a decrease from 3,400 in CY 2013. Temporary permits are issued following electronic database verification that no criminal or credit history exists that could disqualify the applicant. Before submitting applicants to the Commission for permanent or renewal licensure approval, the agency completes the background process. As of December 31, 2014, the KRGC was processing a backlog of approximately 750 background applications, a decrease from 800 as of December 31, 2013.

In addition to performing background investigations, the agency's on-site security staff monitors casino operations, and casino employee and patron activity for regulatory compliance in order to maintain the public's confidence in the integrity of gaming in Kansas. The on-site KRGC security staff acts as support for the casino's security personnel, and as a liaison between the casino and local law enforcement. In CY 2014, KRGC enforcement agents in Topeka, Dodge City, Mulvane and Kansas City processed 185 criminal offense reports for such offenses as

stolen vouchers and personal belongings, counterfeit bills and checks, manipulation of slot machines, cheating, trespass and others. This was an increase from 180 in CY 2013. KRGC agents processed 785 incident reports related to possible regulatory violations, an increase from 640 in CY 2013. In addition, KRGC staff received numerous calls related to notifications required by regulation, requests for assistance and information, regulatory permissions, slot machine inspections, equipment malfunctions and other matters.

The agency's electronic security staff work with gaming machine manufacturers and suppliers to ensure that electronic gaming devices and their supporting systems are programmed and configured to operate in accordance with state law and KRGC regulations. The KRGC requires that all electronic gaming components are tested by an independent testing laboratory approved by the KRGC to ensure that all electronic gaming devices comply with state law and KRGC specifications. In CY 2014, the Commission approved approximately 1,370 electronic gaming components, a decrease from 1,700 in CY 2013. However, in CY 2014 approximately 330 additional gaming components were found to require upgrading, where the existing software was considered obsolete or had software malfunctions that did not warrant revocation, but required replacement. The number of gaming components requiring upgrades or demonstrating malfunctions was first tracked in CY 2014 because agency staff noted a significant error rate for testing laboratory certifications. The Commission also revoked 330 electronic gaming components in CY 2014, an increase from 260 in CY 2013. The agency's electronic security, audit, on-site law enforcement and other staff tested and certified 3,340 electronic gaming machines in CY 2014 related to over 3,200 electronic gaming machine changes, which was an increase from 2,800 electronic gaming machines in CY 2013. The approval of electronic gaming components and the certification of electronic gaming machines is an ongoing process as lottery gaming facility managers change and update gaming equipment in response to changing consumer preferences.

The agency's audit and security staff received 74 internal control amendment requests in CY 2014, which was an increase from 70 in CY 2013. Of the internal control amendments received, the Commission approved 54 that improved or clarified operating procedures related to the protection of state-owned assets, which was an increase from 50 approved internal control amendments in CY 2013.

The KRGC administers and maintains the state-sponsored voluntary exclusion program, which at the end of CY 2014 consisted of 937 individuals, an increase from 640 individuals at the end of CY 2013.

The KRGC acts as the state's coordinating agency for most questions and complaints regarding illegal gambling of all types. In CY 2014, the agency received 126 illegal gambling inquiries and complaints, which was a decrease from 165 in CY 2013. The KRGC receives confidential complaints from the public and local law enforcement about illegal gambling activities occurring in their communities. Upon receipt of the complaint, KRGC agents work with local law enforcement to verify the nature of the activity. If the activity is determined to be illegal gambling and the local authorities seek a remedy, the KRGC provides support for the seizure of any illegal gambling devices and/or the prosecution of the illegal gambling activity by providing case preparation assistance and expert testimony. In CY 2014, the KRGC provided assistance to four jurisdictions to seize twelve illegal gambling devices. By comparison, the KRGC assisted twelve jurisdictions to seize 250 illegal gaming devices in CY 2013. The limited resources of both state and local authorities and higher priority matters reduce the number of cases local

authorities are able to pursue and/or prosecute. Under current state law, the KRGC must rely on local authorities to bring criminal actions related to gambling crimes.

Except for state sanctioned gambling (i.e. lottery, expanded lottery, pari-mutuel wagering, bingo and tribal gaming) all other forms of gambling violate the Kansas Constitution and the Kansas criminal code. The KRGC uses the criminal code to address illegal gambling activity in Kansas, assisting local law enforcement authorities and answering questions from the community regarding the legality of planned events.

The pari-mutuel racetracks in Kansas ceased operations in 2008. Since that time all pari-mutuel wagering licenses have expired and no renewal applications have been filed with the KRGC. Despite the closing of all racetracks, the KRGC continues to register horses for the Kansas-bred program in anticipation of racetracks opening again. The Kansas Greyhound Association registers Kansas whelped greyhounds contract with the KRGC that expired December 31, 2014. Registration of Kansas-bred horses and Kansas whelped greyhounds continues at the request of the horse- and greyhound-racing communities.

All members of the Kansas Lottery Gaming Facility Review Board (Board) have been appointed. The Board held its first meeting on January 7, 2015. The current deadline for applications to be submitted to the Kansas Lottery for the southeast gaming zone is January 30, 2015. The Board initiated a request for consulting proposals immediately in preparation for the receipt of lottery gaming facility management contracts from the Kansas Lottery and the subsequent selection of the best lottery gaming facility management contract that maximizes state revenue, encourages tourism and otherwise serves the interests of the people of Kansas. The Board members are:

Jack Bower, Atchison, Governor Brownback appointee (Chairman)
Georgianna Mullin, Lenexa, Governor Brownback appointee
Lisa Pleasure, Shawnee, Governor Brownback appointee
Don Alexander, Parsons, Senate President Susan Wagle appointee
Jeff Oakes, Fall River, Senate President Susan Wagle appointee
Kevin Cook, Topeka, House Speaker Ray Merrick appointee
Gail Radke, Olathe, House Speaker Ray Merrick appointee