

Approved _____

Date

2/16/87

MINUTES OF THE SENATE COMMITTEE ON FEDERAL AND STATE AFFAIRS

The meeting was called to order by Senator Edward F. Reilly, Jr. at
Chairperson

11:00 a.m./~~p.m.~~ on February 13, 1987 in room 254-E of the Capitol.

All members were present, ~~except~~

Committee staff present:

Emalene Correll, Legislative Research
June Windscheffel, Secretary to the Committee

Conferees appearing before the committee:

Mr. Barrett Hatches, World Wide Communications, of Topeka
Mr. Bart Tichenor, Life at Best, Jefferson City, Missouri
Mr. Charles Schorgl, E.F. Hutton & Company, Kansas City, Missouri
The Reverend Richard Taylor, Life at Best, of Topeka
Secretary Harley Duncan, Department of Revenue and Taxation.

The Chairman welcomed all present and directed the Committee's attention to HB 2043, concerning establishing a state lottery. He said the Committee had a number of conferees from whom to hear today.

The first conferee was Mr. Barrett Hatches, representing World Wide Communications. Mr. Hatches appeared in support of HB 2043, however he had a suggestion concerning the provision regarding minority participation. Mr. Hatches statement, proposed amendment, and attachment concerning how other states are addressing this concern are attached. (Attachment #1)

Mr. Bart Tichenor, an attorney from Jefferson City, Missouri, was the next conferee. Mr. Tichenor referred to the "pie in the sky" concerning the lottery, and will mail a summarization of his remarks to be included with these Minutes. (Attachment #2)

The next conferee was Mr. Charles L. Schorgl, Jr., whose paper illustrating how a million dollar winner from the lottery could be paid off over the next 15 years using U.S. Government zero-coupon bonds. (Attachment #3) is attached.

The Chairman distributed copies of the statement of Mr. T. A. Lockhart from Leavenworth. Mr. Lockhart was present but did not wish to testify, however, he had asked that his remarks concerning a set-aside program for minority entrepreneurs be made available to the Committee and for the Minutes. (Attachment #4)

The Reverend Richard Taylor appeared before the Committee to represent the organization, Kansans for Life at its Best. Copies of his prepared statement, including proposed amendments, were handed out to the Committee and are part of these Minutes. (Attachment #5)

Questions from Committee Members were answered by the conferees.

Secretary Harley Duncan, of the Kansas Department of Revenue, was present with his testimony concerning the Kansas Lottery. It included a Memorandum dated February 12, 1987, stating that he feels the proposed legislation incorporates the key ingredients for success. He also included a State Lottery Overview, dated January 14, 1987. Mr. Duncan asked the Committee to consider two amendments to the bill. (His handouts are Attachments #6, #7 and #8). Also attached is his Summary of House Bill No. 2043. (Attachment #9).

The Chairman said the Committee would hear from some other conferees on Monday. The meeting was adjourned at noon.

2/13/87

STATEMENT PRESENTED TO THE SENATE
FEDERAL AND STATE AFFAIRS COMMITTEE
ON FEBRUARY 13, 1987 ON H.B. 2043

Mr. Barrett Hatches
Attachment #1

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, I AM BARRETT HATCHES REPRESENTING WORLD WIDE PRESS.

I APPEAR HERE TODAY IN SUPPORT OF H.B. 2043.

I WOULD, HOWEVER, PROPOSE TO THIS COMMITTEE THAT THE PROVISION REGARDING MINORITY PARTICIPATION BE AMENDED (SEE ATTACHMENT).

THE AMENDMENT PROPOSED WOULD REQUIRE "AT LEAST A MINIMUM OF 20%" OF MAJOR PROCUREMENT TO BE DIRECTED TO MINORITY ENTERPRISES.

THE USE OF LEGISLATIVE POLICY REQUIRING MINORITY PARTICIPATION AS A METHOD OF INSURING THAT MINORITIES PARTICIPATE AS VENDORS IN PUBLIC PROGRAMS IS NOT A NEW NOR A UNIQUE APPROACH. CURRENTLY THIS STATE IS PARTICIPATING IN A MANDATORY PROGRAM THROUGH THE KANSAS DEPARTMENT OF TRANSPORTATION (KDOT). MOST RECENTLY THE NATIONAL CONGRESS ESTABLISHED IN THE DEPARTMENT OF DEFENSE APPROPRIATION BILL AUTHORIZATION FOR A 5% "NON MANDATORY MINORITY PARTICIPATION" PROVISION.

WITH RESPECT SPECIFICALLY TO LOTTERIES, THE STATE OF OHIO HAS ON THE BOOKS A 15% MINORITY PARTICIPATION REQUIREMENT, THE DISTRICT OF COLUMBIA HAS A 25% REQUIREMENT AND TWO MEMBERS OF BOTH HOUSES OF THE LEGISLATURE ARE CURRENTLY WORKING TO ESTABLISH A MINORITY PARTICIPATION PROVISION IN THE CALIFORNIA LAW. THE LOTTERY COMMISSIONS IN MISSOURI AND CALIFORNIA CURRENTLY REQUIRE MAJOR VENDORS TO SUBMIT ALONG WITH THEIR BID A PLAN TO INSURE MINORITY PARTICIPATION.

Attachment #1
FSA 2/13/87

THE IMPORTANCE OF THE MINORITY PARTICIPATION IN THIS NEW INDUSTRY, AS REPORTED IN THE MAGAZINE PUBLIC GAMING, APPEARS TO BE THE CREATION OF MANY NEW MINORITY FIRMS WHICH HAVE DEVELOPED EXPERTISE IN PROVIDING SERVICES TO LOTTERIES THROUGH OUT THE UNITED STATES.

PERHAPS THE BEST WAY TO ILLUSTRATE THE IMPORTANCE OF THE ROLE OF MINORITY PARTICIPATION IS TO LOOK AT THE EXPERIENCE OF KDOT. HAD KDOT NOT BEEN REQUIRED TO PARTICIPATE IN THE MANDATORY PROGRAM, MINORITY FIRMS IN KANSAS WOULD NOT HAVE RECEIVED THE CURRENT LEVELS OF 10% PARTICIPATION IN THE APPROXIMATE \$160 MILLION DOLLARS RECEIVED FROM THE FEDERAL GOVERNMENT. PRIOR TO THE ENACTMENT OF THE MANDATORY LEVELS REQUIRED IN THE SURFACE TRANSPORTATION ACT, THE KDOT LEVEL OF MINORITY PARTICIPATION WAS AT 3% (1980-1982).

IN SUMMARY, MR. CHAIRMAN AND MEMBERS OF THIS COMMITTEE, WE BELIEVE IT IS VERY IMPORTANT THAT THIS LEGISLATURE, WITH THE ADOPTION OF THE PROPOSED AMENDMENT, SPECIFY TO THE LOTTERY COMMISSION AND MAJOR VENDORS YOUR POSITION ON MINORITY PARTICIPATION IN THE CONTRACTS INVOLVED IN THIS LOTTERY. I WOULD ALSO ADD THAT BY SO DOING, THIS POLICY WOULD ASSIST IN THE FUTURE BUSINESS DEVELOPMENT AND EMPLOYMENT OPPORTUNITIES OF THE MINORITY COMMUNITY OF THIS STATE.

IF YOU HAVE ANY QUESTIONS, I SHALL ATTEMPT TO ANSWER THEM AT THIS TIME.

Proposed Amendment to H.B. 2043

Line 190:

After the word "designate" add the words "a minimum of at least 20% of".

Line 190:

Strike the word "certain".

Line 191:

After the word "awarded" strike the words "in accordance with rules and regulations of the commission".

Language would therefore read as follows:

Starting at line 184:

New Sec. 5. (a) Major procurement contracts shall be awarded in accordance with K.S.A. 75-3738 through 75-3744, and amendments thereto, or subsection (b) as determined by the director, except that the commission shall designate a minimum of at least 20% of major procurement contracts or portions thereof to be awarded solely to minority business enterprises.

2/11/87

TESTIMONY OF W. B. TICHENOR
Attorney at Law
400 E. High St.
Jefferson City, MO 65101

Attachment # 2
2-13-87

on

HB No. 2043

My testimony with reference to House Bill No. 2043 will relate to the philosophy behind the 45-10-45 formula of the Missouri Constitutional provision with regard to the division of lottery receipts.

Basically, this provision for distribution of lottery revenue is based upon the following principles.

1. The citizens of Missouri wished to be able to play the lottery.
2. The state should ensure that the cost of providing the lottery was kept low.
3. The state should ensure that the lottery did not give rise to a large and ever growing bureaucracy.
4. The state should not be in the business of forcing, inducing, or high-pressuring citizens to participate.
5. The state should receive a portion of receipts equal to the portion allotted for prizes.
6. The lottery would never provide a significant portion of needed state funds, but would only provide a very small amount of revenue to the state.

Proponents of the lottery are quick to point out that no state currently runs a lottery on ten percent for administrative costs. However, it should be noted that no state has ever attempted to do so. It is not that it cannot be done, it is simply that the lottery promoters and suppliers of lottery goods and services want as large a piece of the action as they can get and a ten percent cap on costs means less for them.

If a lottery is run on a 45-25-30 formula as proposed in HB 2043, then clearly a third more tickets will have to be sold in order for the state to receive an amount equal to what it would receive under a 45-10-45 formula. In the case of Missouri that means that per capita sales would have to be 1.30 weekly, instead of .86. The figure of 1.30 is in excess of what any state is currently averaging and far in excess of the national average for individual states' per capita sales. I would imagine that the same case would also be true in Kansas.

I can certainly see that from the Kansas viewpoint you might feel the 45-25-30 formula would give you an advantage over Missouri. However, it should be remembered that just as Missouri is at a disadvantage

(over)

Attachment # 2
FSA 2/13/87

with Illinois due to population, Kansas will be at a disadvantage to Missouri because of population. Therefore, total sales and thus size of jackpots will always tend to be larger in Missouri. Thus, if our costs are capped and our amount of prizes is larger, we will be receiving more both in total dollars and percentage of revenue under our 45-10-45 formula than would Kansas under a 45-25-30.

Based upon calculations which I have done on per capita sales, I am convinced that with the core group of lottery players we have in Missouri we can operate a 45-10-45 lottery and provide just as large amount for prizes and have more revenue generated for Missouri than either Kansas or Iowa can do without the ten percent cost limit.

The limit on costs makes for good government. It provides the necessary limit to keep the bureaucracy under control and keeps state costs at the lowest possible level.

Further, when one considers the small percentage of total state budget that the lottery will produce, one can quickly see that of all sources of revenue for a state the cost of administering and collecting revenue from a lottery is more costly than any other revenue source.

The Missouri lottery, even under the most optimistic projections, will produce not more than 1.5 percent of the total state budget. I would imagine that the same is true of what a Kansas lottery will do in terms of percentage of state budget. To illustrate that in another way, the lottery revenue produced to the state will only run Missouri state government for approximately $5\frac{1}{2}$ days. The difference in administrative costs alone between 10 percent and 25 percent in Missouri would fund state government for $1\frac{1}{2}$ - 2 days.

The Missouri experience is still new. The lottery promoters came out in 1984 and assured us that ten percent after the first year would run a lottery. Now they want to back off. Not because it can't be done, but because it will adversely affect how much they can make on the lottery. We feel that a ten percent can and will work in Missouri and in other states. It will produce as many dollars for state revenue on less total sales and thus permit more consumer dollars to remain in the economy for commercial exchange instead of the redistribution of wealth under a lottery.

Since Kansas can change its percentage by statute, it would seem the cautious approach to work with a ten percent lottery to see what revenue it can actually produce before establishing a large and costly bureaucracy for the promotion, administration and collection of this form of state revenue.

On-Line System

A Capital Success On the Potomac

*Unique minority business enterprise operates
District of Columbia's on-line lottery.*

Editor's Note: Mr. Stern, chairman of the board and a founder of GTECH Corporation, was a principal creator of Lottery Technology Enterprises (LTE) along with Guy B. Snowden, president, CEO and a founder of GTECH, and Leonard Manning, chairman and CEO of LTE and president of New Tech Games, Inc., a participator in the LTE joint venture.

We never had a single doubt it would work. Established specifically in 1983 to meet D.C. Lottery contract procurement and on-line facilities management requirements, Lottery Technology Enterprises (LTE) today is unique in the same way it was some three years ago. There wasn't anything like it then, and there isn't anything like it now.

To meet the mandate of the District of Columbia Lottery and Charitable Games Control Board, GTECH Corporation helped create a joint venture company. LTE, the resulting entity, has become the flagship for successful minority business enterprises (MBEs) in the on-line lottery industry. To not only meet but also exceed the minority business requirements stated in the request for proposal, LTE was created with a 60-percent equity held by District Enterprise for Lottery Technology Applications (DELTA) and a 40-percent equity held by GTECH. DELTA is itself a joint venture among four minority owned and operated companies.

Establishment

Each of these minority firms was uniquely qualified for its intended

role, and each was headed by dedicated and determined executives experienced in their fields. These firms and executives were: Network Technical Services, Inc., Oscar F. Smith, Jr., president; New Tech Games, Inc., Leonard Manning, president; Opportunity Systems, Inc., George H. Walker, president; and The Prism Corporation, Michael E. Johns, president.

The combined experience of these individuals in gaming, training, data processing, electronic equipment testing and maintenance totaled more than 70 years. In executing the operating contract with the D.C. board, LTE's component firms (GTECH and DELTA) act as subcontractors, providing all the required equipment and services.

LTE began as an idealistic conception backed by solid resources—human and financial. In addition to GTECH's partnership role, we acted as venture capitalists, providing financial and technical backup as required. But from the very beginning, LTE had to prove itself as an organization capable of implementing and operating the D.C. Lottery. LTE submitted its proposal to the D.C. board, a contract was awarded in April, 1983, legal challenges led to a re-bidding procedure, and LTE again won the contract in June.

Initial Operations

Plans were to commence on-line operations in October, but threat of a national telephone strike pushed the start-up date to Aug. 22—just over two months after the contract was signed. Even though the telephone strike only lasted until Aug. 29, terminals were added steadily during and after the strike period.

By April, 1984, the network had 400 terminals on line and weekly gross revenues of \$1.5 million. A lotto game was added later in 1984, and by April, 1985, there were 500 terminals on line and weekly sales were grossing \$2 million. In early February of this year, the weekly gross was approximately \$2.25 million, wagered through more than 540 terminals.

Continued on page 37



Reflections of **Robert Stern**
Chairman, GTECH Corporation



Marketing

Again, only time will tell.

Of course, additional production costs will be incurred. The production costs of :10s direct-pulls are negligible. And production costs of closely aligned :10s would be minimal if shot simultaneously with the companion :30s.

The potential cost benefits of using :10s are so great, however, that the concept should be examined closely. Although the cost of :10s may not be exactly one-third of the cost of the :30s, they are less than one-half.

Testing the Theory

The D.C. Lottery is putting this theory to the test with the introduction of its

new D.C. Daily Double game. Ten-second spots were used as the sole television commercial in the teaser campaign with radio as a support medium. Throughout the six-week introduction campaign, :10s will be used in various proportions in support of the :30s.

While it is too early to report the results of this new approach, D.C. Lottery officials have high expectations. The industry will be kept abreast of the continuing findings of this approach as the marketing branch seeks to refine the concept into a finely tuned media placement strategy. **PG**

On-Line System

Continued from page 34

Accomplishments

Two recent citations by the D.C. City Council and the D.C. Board of Education honor LTE for its success as a firm that actively pursues community business and education goals for minority residents.

Foremost among these dedicated professionals is Leonard Manning, chairman and CEO of LTE. As a self-employed businessman, Manning was a member of the 1975 commission that developed the foundations of the legislation that created the D.C. board. His combined experience in electronics, security systems and gaming systems made him the logical choice to head LTE when it was formed. He was one of the chief architects who made LTE a reality and has guided the joint venture from the beginning.

The results of LTE's success are now carefully taken into consideration by many companies concerned with extending opportunities for MBE companies. At GTECH, we have confirmed what we knew all along—that such opportunities abound in most on-line lottery jurisdictions. As a leading provider and operator of on-line lottery networks, GTECH actively solicits bids from minority- and women-owned businesses.

The LTE success in Washington, D.C. shows that qualified MBE firms can participate in many ways. Some of these include: central site computer operations; terminal maintenance and repair; accounting services; legal services; bonding and insurance services; state government liaison; advertising; promotion and public relations services; warehousing and distribution services; and a host of other services, including construction and electrical contracting, when the lottery is an initial installation.

Before these and other types of MBE firms can be identified and offered the opportunity to bid their services and participate, however, a crucial factor must be in evidence. That essential factor is a full commitment to making MBE participation really work. The lottery jurisdiction should, and the on-line network supplier must have this commitment. **PG**

Cultural Diversity Creates Marketing Challenges

The District of Columbia Lottery faces special challenges as it responds to the diverse cultures of the metropolitan area on several levels. Because of the lottery board's willingness to accept challenges and seek solutions, the lottery has successfully addressed the linguistic and cultural diversity of its market through special efforts conducted by the marketing branch.

Communicating With Agents

One of the ongoing dilemmas faced by the lottery is communication with Korean lottery agents, who account for almost one-third of the agent base. After meeting with Korean agents and community leaders, a special program was implemented to overcome cultural and language barriers. The "Korean Desk" now produces agent materials in the Korean language, and a quarterly Korean language newsletter.

In addition, the "Korean Desk Coordinate," Young Ja Kim, acts as inter-

mediary where language and cultural barriers exist and provides community outreach services to ensure that the lottery stays in touch with its agents' needs. Finally, the lottery places Korean language advertising and articles in Korean language business and newspapers.

Communicating With Players

On the consumer side, the lottery must communicate with a Spanish-speaking population of over 100,000. Spanish language ads are placed in Spanish newspapers and on Spanish radio. Point-of-purchase materials are produced in Spanish as well. Also, two Spanish-speaking lottery staff members are available to act as intermediaries whenever needed.

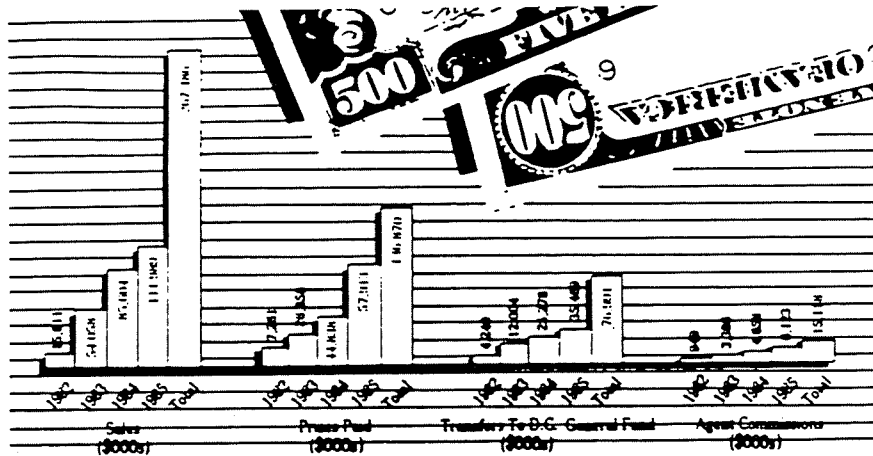
While more remains to be done, a solid foundation has been built to ensure strong communications and a sincere respect for a cultural diversity.

PG

Overview



D.C. Lottery And Charitable Games Control Board: A Case Study



D.C. Lottery... A Growing Success

The D.C. Lottery and Charitable Games Control Board was established in 1981 by D.C. Public Law 3-172 to generate revenues for the general fund of the District of Columbia. A five-member policy board appointed by the mayor and confirmed by the city council governs the lottery. Management of the daily operation is conducted by the board-appointed executive director.

Initially capitalized by a \$628,000 appropriation from the District government, the lottery sold its first ticket in August, 1982. Today, in just three short years, the lottery has become a multimillion-dollar business, recognized as the No. 1 lottery in the nation in per capita sales.

Exciting Games Increase Sales

The D.C. Lottery offers a full complement of standard games—a 3-digit "Lucky Numbers," a 4-digit "D.C. 4," a six-number "Lucky Lotto," and instant (scratch) games which change periodically. Gross revenues from ticket sales totaled \$112 million in fiscal year (FY) 1985 and \$57.9 million in prizes were awarded to winning players. This

equates to more than \$1 million being generated by each lottery employee.

Generating Revenues for D.C.

Proceeds from the lottery are transferred to the general fund of the District of Columbia to provide funding for city services and programs. In FY 1985 over \$35 million was transferred to the District's general fund, making the total contribution since inception \$77 million.

Agent Benefits

The lottery sells its games through a network of some 700 local businesses licensed as agents. In FY 1985 these agents received over \$6 million in commissions. Agents, ranging from major chain stores to neighborhood "mom and pop" stores, also benefited from increased customer traffic and special incentives for outstanding sales records.

Facilitating Fund-Raising

Charitable Games is the division of the lottery responsible for licensing nonprofit, charitable organizations to operate bingo games and raffles and

for providing the necessary training to ensure the success and integrity of these fund-raising activities. In FY 1985, \$3.2 million was raised by 46 licensed, nonprofit organizations for charitable causes.

Community Benefits

Although the D.C. Lottery employs only 89 people, it is estimated that the lottery's presence has created nearly 500 new jobs for District residents, mostly in the private sector. In FY 1985, over 63 percent of the lottery's contract dollars went to local, minority-owned businesses, adding to their growth and stability. This aggressive minority business program now serves as a guide for other state lotteries.

Involvement

The lottery and its staff donate time and resources to meaningful programs like the Mayor's Summer Youth Program, the D.C. One Fund, Project Harvest and Toys for Tots. In addition, the lottery participates in numerous community festivals, conventions, and exhibits.

Recent Developments/Future Plans

A new 2-digit numbers game, one of the first of its kind in the nation, was introduced in March, 1986. Two new board members and a new chairperson were named to the board.

By the spring of 1986, the lottery's total administrative and management operation will be fully automated with state-of-the-art computers. Finally, the lottery will institute an aggressive plan to increase and enhance its agent base, targeting new markets to increase sales and transfers to the general fund.

The lottery is good business for the District—BETTOR OR NOT, EVERYBODY WINS!!

PG

LTE Runs a Successful Lottery While Satisfying Some Unique Social Objectives



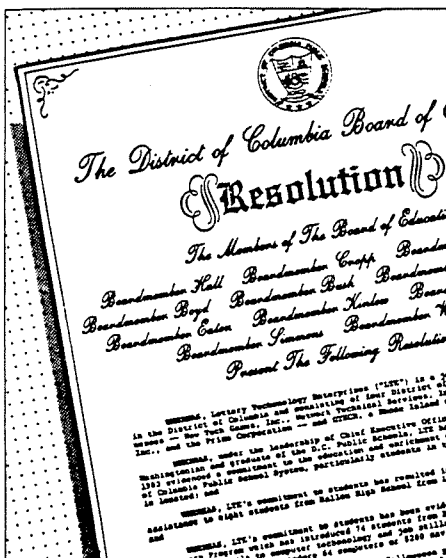
by **Leonard Manning**
 CEO, Lottery Technology Enterprises; and president, New Tech Games, Inc.

In line with the District of Columbia Lottery's commitment to meet the needs of a broad base of the city's population, Mayor Marion S. Barry, Jr. outlined some unique guidelines prior to the start of on-line operations.

The mayor believed that the city's lottery program should generate community and economic development benefits, which could be used to assist those D.C. residents who had traditionally not benefited from governmental programs, and those who live in areas often overlooked by private industry. In turn, the D.C. Lottery and Charitable Games Control Board translated the mayor's concern into a strong minority business requirement in its request for proposals and into an expressed intent to see civic activities included in the proposals received from potential vendors.

Lottery Technology Enterprises (LTE), a unique joint venture of four local minority-owned businesses and GTECH Corporation of Providence, Rhode Island, was selected as the contractor to implement the on-line lottery system and associated services for the D.C. Lottery Board. Under the terms of its joint venture agreement, contract administration, terminal maintenance and repairs, data processing, and training of agents are provided respectively by New Tech Games, Inc., Network Technical Services, Inc., Opportunity Systems, Inc., and The Prism Corporation—minority companies of the joint venture. GTECH provides computer and communications hardware, terminals, game software and some game design assistance.

Pulling together as a team, LTE began



Above: Leonard Manning and resolution of appreciation to LTE from the D.C. Board of Education.

D.C.'s three-digit "Lucky Numbers" game in record time—a mere 64 days after its contract was signed. In the two and a half years since the start of the first game, LTE has successfully started and operated two more games ("D.C. Four," a four-digit game, and "Lucky Lotto"), and has a fourth game (a new two-digit numbers game, "D.C. Daily Double") about to begin.

Achieving Community Goals

More importantly, LTE has accomplished these tasks while remaining true to the goals of the mayor and the D.C. Lottery Board. LTE has involved a record number of local minority businesses in all aspects of its operations, including advertising, marketing, public relations, suppliers, vendors, security and professional services (such as architects, accountants and lawyers).

LTE

LTE, through its various members, has employed and trained minority individuals in all aspects of lottery operations.

LTE is particularly proud of how its civic activities have advanced the policy and goals expressed by the lottery board and the city's leadership. LTE renovated an 8,000-square-foot warehouse in the often-ignored Anacostia area of Washington, D.C. to use as its headquarters. It included in its design a classroom, which is used for an intern program to train students from three local high schools in job market skills, computer operations and basic computer science. Successful participants in the nine- and 15-week programs held on Saturdays have received U.S. savings bonds or Commodore 64 computers upon completion.

In addition to these activities, LTE

LTE is particularly proud of how its civic activities have advanced the policy and goals expressed by the lottery board and the city's leadership.

has contributed a total \$40,000 to the Anacostia Economic Development Corporation—a non-profit organization designed to promote additional economic development opportunities in the community—and has provided scholarship assistance to local high

school and college students.

LTE is also working with the superintendent of the D.C. public schools to develop a computer literacy program for the students as part of the Public Private Partnership Program. Both the city council and the board of education have passed resolutions recognizing LTE's commitments to the city's youth. In short, LTE has combined successful and innovative on-line lottery implementation and management with community and economic development activities to form a unique public-private partnership.

LTE hopes to serve as a model for other state lotteries which seek to combine lottery success with broader social objectives. The unique joint venture experience has demonstrated that such goals are achievable when a sensitive lottery board works with a socially conscious vendor. **PG**

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2/13/87
Attachment #3



Wornall Road at Ward Parkway
Kansas City MO 64112
Telephone (816) 932-7800

February 12, 1987

The following illustrates how a million dollar winner would be paid off over the next 15 years using U.S. Government zero-coupon bonds. The winner would be paid 66,000 for the first 14 years and 76,000 in the 15th year.

<u>Year</u>	<u>Price</u>	<u>Yield</u>	<u>Total Cost</u>
1987	95.594	6.251	63,092.04
1988	89.738	6.350	59,227.08
1989	83.193	6.849	54,907.38
1990	77.214	7.050	50,961.24
1991	71.881	7.100	47,441.46
1992	66.117	7.349	43,637.22
1993	66.114	7.450	43,635.24
1994	56.172	7.600	37,073.52
1995	52.134	7.600	34,408.44
1996	47.267	7.850	31,196.22
1997	43.315	7.900	28,587.90
1998	39.173	8.149	25,854.18
1999	35.944	8.200	23,723.04
2000	32.872	8.300	21,695.52
2001	29.753	8.400	22,612.28
			<u>\$588,052.76</u>

This representation is based on the prices and yields from February 12th and are subject to daily fluctuation. Please call toll-free (1-800-821-6119) with any further questions.

Sincerely,

Charles L. Schorgl Jr.
Account Executive

Attachment #3
FSA 2/13/87

2/13/87
Attachment #4

13 FEBRUARY 1987

CHAIRMAN AND MEMBERS
FEDERAL AND STATE AFFAIRS COMMITTEE

I AM THEODUS A. LOCKHART OF LEAVENWORTH, A
CITIZEN AND TAXPAYER. MY STATEMENT ON THIS LOTTERY
ISSUE IS NOT IN BEHALF OF ANY ORGANIZATION TO WHICH
I BELONG.

I, PERSONALLY, SUPPORT A SET-ASIDE PROGRAM FOR
MINORITY ENTREPRENEURS IN THE STATE LOTTERY CON-
TRACTUAL ARRANGEMENTS. A 10 - 25% AREA WOULD
APPEAR GOOD. ALSO, THE PROGRAM SHOULD ASSURE
UTILIZATION OF PROFITS WILL GIVE SOME BENEFITS TO
LOW SOCIO-ECONOMIC GROUPS. (DRUG ABUSE, ALCOHOL
ABUSE , GAMBLING ABUSE, ETC., THROUGH OUR EDUCATION
SYSTEM).

THANK YOU

Attachment #4
FSA 2/13/87

2/13/87
Attachment #5

House Bill 2043 as amended by House Committee of the Whole
February 13, Friday, 1987 Hearing
Senate Federal & State Affairs Committee

Richard Taylor
KANSANS FOR LIFE AT ITS BEST!

The House Federal & State Affairs Committee was told many times that HB 2043 was everything that lottery vendors wanted. We hope you will include some provisions wanted by concerned Kansans.

For the first time in our 125 year history, the state of Kansas will be competing for consumer dollars with every merchant on main street.

Amendments suggested are aimed at reducing fraud and deception.

Page 3, Line 0106 Add

"All employees shall be notified in writing that the 1990 legislature may terminate their jobs."

Page 4

Strike all of section (e). The people voted "for a state-owned and operated lottery." They did not vote "for the operation of a joint lottery."

Page 8, line 0280

Make it read "a list of the high and low odds." Average odds or low odds are usually advertised.

Page 8, the following added on line 305:

"tery. All marketing plans shall require this statement included in newspapers, on radio and TV, and in all promotional material, 'IF YOU CAN'T AFFORD TO LOSE, DON'T PLAY.'" Because Lottery gambling promoters claim discretionary dollars are spent for tickets, they should not object to this requirement.

Page 12, line 0446 Add

"If the prize is advertised as one million dollars or some other fixed amount, it shall be paid exactly as advertised and not paid in the form of an annuity."

Page 14, line 0522

Change 30% to 45%. That is the percentage used in Missouri. Kansas would receive the same amount of revenue with fewer consumer dollars taken from Kansans.

We are told over and over how lotteries were used early in our nation's history. But those lotteries did not permit gambling promoters to skim off 25% of all money received.

Fewer dollars gambled away on the Kansas lottery means more consumer dollars for merchants on main street, more grocery money for the poor, and fewer people becoming compulsive gamblers.

More dollars gambled away on the lottery means more millions for those running the operation.

Will you vote for special interest lobbyists and their clients or will you vote for the public good?

Attachment #5
FSA 2/13/87

Lottery protest led by priest

'Poor spend food money on tickets'

By The Associated Press

Chicago—The Illinois Lottery sells false promises and victimizes people who ought to be spending the money on food and heat, says a Roman Catholic priest who drew \$5,000 worth of losing tickets in his church's Sunday collection to illustrate his point.

"People without discretionary income do not have the money to play the lottery," said the Rev. Thomas O'Gorman, who became angry when the lottery was advertised on a billboard across the street from his St. Malachy's church on Chicago's West Side.

"Despite that fact, they are the target of heavy advertising which promises to move them into the middle class if they're lucky," he said.

"They will buy inexpensive things with food stamps and use the change for lottery tickets," said Father O'Gorman. "They're spending money which ought to go for food, heat and clothing."

"We believe that the lottery is a victimizer of the poor and blacks," said the priest, whose parish members are mostly black.

He encouraged parishioners to toss their losing tickets in the collection plate during a special Mass Sunday and came up with \$5,000 worth, he said.

"That's more than any Sunday collection, ever," Father O'Gorman said.

He said he has scheduled a rally to protest the lottery's advertising practices for Friday at the State of Illinois Center. Other churches have indicated that they will join in his call to boycott the lottery, he said.

"We want the state lawmakers who voted against the lottery 12 years ago to lead the fight to end it," Father O'Gorman said. "Our challenge to the lottery is basically a challenge to our state government to do more for the poor."

He said many of the people in his parish have been caught up in the "false promises" made by the lottery ads.

But Joel Feldstein, a spokesman for the Illinois Lottery, called the priest's allegations "absolutely, categorically false."

"No one is forcing anyone to play," said Mr. Feldstein. "And most of the advertising is done in mediums that reach everyone—in newspapers and TV."

But he conceded that placing a billboard advertising the lottery near the church may have been in poor taste.

"(Its placement) was an unfortunate accident," said Mr. Feldstein, who added that the billboard has been removed.

"The ads do not coerce anyone to play," said Mr. Feldstein. "The campaign says playing the lottery is fun. If someone wants to pay a dollar to have some fun and maybe win something, what's wrong with that?"

He said the lottery returned \$517 million to the state's general fund for education, health and welfare and other services in 1985, while paying out about \$560 million to winners.

Mr. Feldstein said businesses that sell lottery tickets received about 5 percent of the lottery's receipts in 1985 for selling the tickets.

"The money helps everyone throughout the state, including the poor," said Mr. Feldstein, who added that the odds of becoming a millionaire in one of the lottery's twice-weekly Lotto drawings are 3.5 million to 1 for a single \$1 ticket.

The state's share of lottery proceeds will now go only to education under a new law that went into effect in August.

Lottery tears

I "joined the crowd" in a small way. I couldn't afford to gamble very much, so when I went to the grocery store I would get one ticket. Losing one dollar wasn't too bad, but that dollar would have bought some food.

Coming out of the store, a young woman was parked beside my car. I noticed she had quite a number of tickets, and I watched her scratch her tickets. Tears started down her cheeks and she laid her head on the steering wheel and cried! This meant she didn't have a winner, but, more important, had probably spent money she could not afford and needed for other things.

Claude Gaines

Kansas City

"Every time somebody wins, other people figure, 'If they can do it, why can't I?'" said David Shulman, director of the Mid America Assistance Coalition.

He and other officials argue that advertising for the lottery is often aimed directly at the poor, promising great riches at little expense.

"If you're going to sell dreams, people are going to buy them. And the poor are like everybody else," Mr. Shulman said.

Like other area officials, Jeanne Meeder, executive secretary of Metropolitan Lutheran Ministries, worries that the city's low-income residents are being drawn into the game of chance by a much more basic motive than their more well-to-do competitors.

"They fantasize that they can get out of the poverty cycle that they're in," she said.

And although officials say it's too soon to tell how many people will plunge into financial ruin because of the game, they expect it will be many. "There are a lot of poor fools with rich dreams," said Jane Van Sant, executive director of Transitional Living Consortium.

A worker at Metropolitan Lutheran Ministries recalls a visitor who scratched off a lottery ticket while waiting for assistance.

Brian O'Malley, associate director of Catholic Charities of Kansas City, cites numerous examples of potential clients—elderly, impoverished women, poor students—lining up behind lottery windows to buy 10 tickets at a time.

"I've seen some just disgusting stuff out there," he said. "I hate to think of somebody who's using their utility and food budget on lottery tickets, but I'm sure it's happening."

So is the Rev. Thomas O'Gorman. The Chicago priest has appeared on local television and radio shows to speak for thousands of area poor who he claims are being bombarded with the false impression that the Illinois lottery will lead them out of poverty.

More than 20 percent of the 16,000 families living in his neighborhood's federal housing projects are addicted lottery players, he estimates, with the result that many are dipping into the family grocery or clothing budget for lottery wagers.

Father O'Gorman plans a neighborhood rally on the subject this week. "The lottery tells you that this is the way to get rich, to get out of your neighborhood, when all along they know it isn't," he said.

Kansas City Star February 16, 1986

State Lotteries: The Only Legal Swindle

By HERBERT L. KAHN

Before 1969, finance companies and other lenders played some deceptive games with interest rates. The company would lend you, say, \$1,000 to be repaid in 12 monthly installments of \$91.67 each for a total of \$1,100. The interest on the \$1,000 loan was thus \$100, or a "low low" 10%.

Everybody was happy. The customer was happy to get such a low rate. The lender was even happier, since he was actually getting a "high high" 18%. After six months, the customer would already have paid back \$550, which could then be lent out again.

"Where ignorance is bliss, 'tis folly to be wise," wrote Thomas Gray. Congress did not agree, and in 1969 ended the bliss by enacting the Truth-in-Lending Law, which greatly reduced the ability of lenders to misstate their interest rates. (Only a little leeway is left—credit-card companies still pretend that 1.5% per month is 18% a year, while it's really 19.6%.) Now you're protected. No one can legally swindle you except your State Lottery.

Such lotteries were common during the past century, but then fell into disrepute and died out. They were not reintroduced until 1963, starting with New Hampshire. Today, at least 17 states and most Canadian provinces have official lotteries.

Proponents say that lotteries represent the most voluntary tax imaginable, because nobody is forced to bet. Moreover, they say, the chance of a big win brings excitement into otherwise drab lives.

Opponents argue that gambling is immoral, and that government should not encourage immorality. They also say that

lotteries are a highly regressive form of taxation, because the heaviest betters will be those who can least afford it. Lotteries, they say, are a form of revenue sharing to benefit the rich.

One argument that has often carried the day is that people will gamble anyway. All that a lottery does, this argument goes, is to transfer the profits from Organized Crime to Organized Government.

Not true. Experience shows that soon after it begins, the state lottery is no longer content to sell only to betters defecting from Organized Crime, but conducts an expensive and sophisticated campaign to woo new ones. Organized Crime does not do this. You don't see the Cosa Nostra running press conferences, newspaper ads and TV commercials. Such hype does work: Recently a mania possessed otherwise sane residents of New York state as they bought more than \$24 million worth of lottery tickets.

One reason why such promotion is needed is that the payout of most state lotteries is far stingier than that of other forms of gambling. In the Massachusetts Megabucks Game, for example, the bettor must guess six different numbers between 01 and 36 to win the jackpot. The odds against success are about 1.95 million to 1. The value of the prize can vary—if nobody wins in a given week, the money is added to next week's pool—but the state claims that about 50% of the money that is bet is returned in the form of prizes.

A 50% payout is little enough; in Atlantic City, N.J., or Nevada the payout in roulette is about 94%. Even worse, however, is that the claim is deliberately deceptive. A top prize of \$50,000 a year for 20 years is

not the same as \$1 million. To pay out \$50,000 a year, the state must put an appropriate sum into the bank, where it collects interest. The amount is calculated to run out at the end of the 20-year period. The higher the interest rate, the less the state needs to put in the bank. Even at low interest rates, however, the state doesn't spend close to \$1 million. Some computed figures, at different interest rates, are shown below:

Interest rate	True payoff
5%	\$654,266
10%	468,246
12%	418,289
15%	359,912
20%	292,175

To put it another way, if you receive \$50,000 a year and spend it, after 20 years you will have nothing left. If, on the other hand, you receive a true million, you can buy tax-free municipal bonds at 10% interest, spend the interest—\$100,000 a year, not \$50,000—and at the end of 20 years you will still have your million!

At an interest rate of 10%, the state pays out less than 25 cents per dollar received, not 50% as claimed. (And this is before federal income taxes.)

In order to attract financially unsophisticated people to the lottery, the state misrepresents the winnings in almost exactly the same way finance companies used to do before the Truth-in-Lending Law. It is ironic that today not even the sleaziest moneylender is permitted to do things that state lotteries do as a matter of routine.

Mr. Kahn is president of a marketing company in Weston, Mass.

(Every Chamber of Commerce member should have this information)

Is 22¢ enough to pay lottery gambling promoters for each \$1.00 revenue? Or should they receive 83¢ and more for each \$1.00 raised for Kansas?

Lottery gambling promoters won last November because they convinced voters this is a voluntary and painless way to raise taxes. They said we should follow the lead of Missouri. But like all swindlers, you can not trust them. Now lottery promoters do not want to be like Missouri.

Money received from lottery sales in Missouri is to be divided this way:

45% Player prizes
45% Taxes for the state
10% Salaries and expenses for lottery promoters.

House Bill 2043 to implement a Kansas lottery divide lottery sales this way:

45% Player prizes "as nearly as practical"
30% Taxes for the state
25% For lottery promoters

If 45% is used for player prizes, and if \$100 million consumer dollars are spent by Kansans for lottery tickets, this would be the result:

\$45 million player prizes
\$30 million for the state
\$25 million into pockets of lottery promoters

For each \$1.00 received by Kansas, 83¢ would go to gambling promoters.

But "as nearly as practical" gives gambling promoters a blank check with no limit on how much money may go into their pockets. Less for player prizes means more for their salaries and promotional hype. Each \$1.00 received by Kansas could cost more than \$1.00 to collect!

If Kansas used Missouri percentages, only \$66.7 million consumer dollars would be needed to raise the same revenue for the state:

45% of \$66.7 million equals \$30 million for player prizes
45% of \$66.7 million equals \$30 million for the state
10% of \$66.7 million equals \$6.7 million into pockets of lottery promoters. For each \$1.00 received by Kansas, only 22¢ would go to gambling promoters. Because only \$66.7 million, not \$100 million, would be gambled away on lottery tickets, the public will have the other \$33.3 million consumer dollars in their pockets to spend on main street.

Do merchants receive 22¢ to collect \$1.00 sales tax for Kansas?

Seventeen hundredths of a cent sales tax in Kansas will bring in \$30 million revenue. That is an additional penny tax on a \$6 purchase. Such tax would take \$30 million consumer dollars and the state would receive all of it. Lottery will take \$100 million consumer dollars and the state will receive \$30 million. The sales tax would leave \$70 million consumer dollars in the pockets of Kansans for merchants on main street!

No matter how you cut it, fewer dollars gambled away on lottery tickets means more consumer dollars for merchants on main street! That is economic development at its best.

Concerned Chamber of Commerce members will want to ask lawmakers to require Missouri percentages in Kansas law.


Fewer dollars for gambling hype promotion means less pressure on Kansas poor people to spend grocery and rent money for lottery tickets.

Thousands of Kansans voted for NO lottery. A majority voted to permit a lottery. None voted to spend 83¢ or more promoting lottery gambling for each \$1.00 revenue received.

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MEMORANDUM

TO: THE HONORABLE EDWARD F. REILLY, CHAIRMAN
SENATE COMMITTEE ON FEDERAL AND STATE AFFAIRS

FROM: HARLEY T. DUNCAN, SECRETARY
KANSAS DEPARTMENT OF REVENUE 

DATE: FEBRUARY 12, 1987

RE: HOUSE BILL NO. 2043

INTRODUCTION

Thank you for the opportunity to appear before you on HB 2043, the enabling legislation for the Kansas Lottery.

House Bill No. 2043 draws extensively on the experience and operation of lotteries in other states. It relies heavily on the Iowa and California legislation. In addition, it has been reviewed and critiqued by officials in several states, representatives of various lottery vendors (many of whom have worked for lotteries) and other interested parties. It was also the subject of extensive hearings by the Special Committee on Federal and State Affairs.

As a result, you have before you a piece of legislation that I believe incorporates the key ingredients for success: **flexibility, integrity, vendor competition, public accountability, and security**. Above all, it responds to the desires of 64 percent of the voting public who indicated their desire to participate in a lottery.

One issue appears to remain, however, and I would like to address that at this time. You have heard or will hear that the bill should be amended to increase the proportion of receipts dedicated to prizes and/or the Gaming Revenues Fund (thereby reducing the amount available for administration) and that a special limit should be placed on the proportion of receipts used for advertising and promotion. I urge you to resist these amendments on the general premise that they will significantly reduce the flexibility of the lottery to respond to changing conditions and to unknowns. They run the very real risk of endangering the ability of the lottery to operate successfully. There are also specific reasons to oppose each of the proposals.

ADMINISTRATIVE COSTS

1. The notion that a lottery the size of Kansas can operate effectively on 10 percent administrative costs, particularly the first year, is simply not borne out by the facts. In 1985, there were 10 states with lottery sales of less than \$200 million. Of these, only one (Delaware at 11.3%) had administrative costs of less than 15%, and five had costs in excess of 25%.
2. These 10 states are largely established lottery states. In the first year or two, administrative costs can run even higher because of certain "up-front" costs the lottery will face (e.g., computer hardware and software, capital outlay, and facilities). In addition, the Kansas lottery is likely to be introducing both instant games and on-line

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games in the first year. It is simply not possible to accomplish an expense level of 10% under such circumstances. Iowa and West Virginia experienced administrative costs of 15-20% in the first year of operation.

3. The Missouri experience is particularly enlightening and demonstrative. Even though, the Missouri lottery is to be operating under a 10% limit, actual first year costs have run about 18% of receipts. To attempt to meet the limit, the lottery has done a number of things which have bred ill will and proven disruptive to the lottery. Among these are delaying transfers of revenues to the State General Fund, pushing costs on to vendors and forcing retailers to assume costs that are normally borne by the lottery. There is currently discussion of increasing the 10% limit. Mr. Jim Holmes, Missouri Lottery Director, has stated publicly that staying with a 10% limit would reduce net state revenues from a projected \$120 million to \$40 million in 1990. (*Kansas City Times*, February 11, 1987.)
4. The 25% figure often cited as the proposed administrative costs is actually the maximum potential given that 45% is to be paid in prizes and at least 30% is to be transferred to the Gaming Revenues Fund. We would expect that over time (after the first 12-18 months of operation) that costs would be less than that. One should remember that not all administrative costs go to "vendors." Funds are paid to lottery staff, other contractors and suppliers, operating costs of staff (e.g., space and travel) and **commissions and bonuses to retailers**.
5. If the desired end is oversight and control of the lottery, I would remind you of the mechanisms already in the bill including the required financial reports, legislative post audit reviews, the normal budget and appropriations process and the lottery commission. If other means are desired by the Legislature, I would encourage special committees and interim reviews. Also remember the lottery must be reauthorized in 1990. At that point, experience will have been gained and necessary changes can be made.

ADVERTISING COSTS

A similar line of reasoning can be used to resist efforts to impose statutory limits on the proportion of total receipts that should be available for advertising and promotion.

1. We must remember that the lottery will be competing for the discretionary entertainment dollar and that promotion and advertising is absolutely necessary to the operation of the game. This is particularly true given that we will need to compete with Missouri for our largest market of potential players.
2. An advertising limit is likely to prove counterproductive. That is, as sales begin to fall off, it may well be that additional advertising expenditures are necessary, but the funds available will be declining. Advertising expenditures should be evaluated on the basis of return on investment, not an artificial limit.
3. In the first year, the lottery will be required to introduce lottery generally, several different instant ticket games (perhaps with a roll-over jackpot feature), and an on-line game of some sort. This will require extensive promotional efforts.
4. Iowa is supposed to operate with a 4% limit on advertising. Its first year expenses were 5.3%. The extra amounts were covered by special appropriations and some "redefinition" of costs.

CONCLUSION

Efforts to impose severe restrictions on the administrative costs of the lottery are, I believe, well intended in that their purpose is to maximize net revenues to the State. Such restrictions, however, ignore the realities of operating a lottery. They may, in fact, endanger its successful operation and jeopardize the very goal they seek to foster.

I would be glad to answer any questions.

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Kansas Department of Revenue
State Lottery Overview
January 14, 1987

INTRODUCTION

Kansas was one of six states which considered the issue of whether to adopt a state operated lottery during the last general election. Initiatives were approved in Florida (64-36), Idaho (60-40), Montana (69-31), South Dakota (60-40), and Kansas (64-36) with North Dakota (56-44) being the only state to defeat the issue. These states join 22 existing lottery states, plus the District of Columbia, in what was a \$10.16 billion dollar business in calendar year 1985.

This presentation updates the paper presented during the last legislative session and covers the areas of game design, start-up, allocation of lottery revenue, functions a state agency must perform, estimated state revenue, and enabling legislation.

GAME DESIGN

Lottery games can be divided into two categories, active and passive. Active games are those in which the player participates in the bet by choosing a number or set of numbers. Passive games are those in which the player takes no action to determine whether he has won or lost; instead a ticket is purchased and the outcome is then revealed.

There are currently several types of lottery products being played. The first is what is commonly referred to as the weekly game or draw lottery. Though rare in the United States, this is the game which was used when the modern lottery first started in 1964 in New Hampshire and remains the main game in overseas lotteries. Similar to a raffle ticket in appearance and in play, the player purchases a pre-numbered ticket and waits for a weekly drawing.

The second type of lottery product is the instant lottery ticket. The instant ticket has play data which is concealed by a removable latex material. A player buys the ticket, usually for \$1, and scrapes off the material to reveal whether or not it is a winner. As an example, a game may have a match three theme; match three dollar figures and you win that amount as a prize.

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In addition, states have introduced jackpot prize drawings which use the instant ticket as a method to gain entry. Players are entered in a weekly drawing and if selected can participate in a televised event to "spin the wheel" for prizes such as \$5,000, \$10,000, \$25,000, or a jackpot which increases each week if not won.

The third type lottery product involves an on-line system. This was introduced in the mid-1970s. The on-line system is a series of computer terminals which are similar to cash registers in appearance and are geographically located throughout a state. The terminals are linked to a central computer site, usually in the state capital. There are currently three on-line games. The first on-line game to be introduced was the three-digit game, commonly referred to as the numbers game. Numbers games were originally designed to compete directly with Eastern illegal numbers games. A player approaches the agent who has a terminal and selects three digits. The agent enters those three digits at the terminal and the play is recorded at the central site. Every day there is a random drawing of a number and matching that number in prescribed ways wins prescribed prizes. The second game is the pick four or four-digit game, which is basically run the same way as pick three.

The third on-line game is the increasingly popular lotto game. A player picks six numbers out of a specified field of numbers, such as 36, 40, or 44. A certain percentage of the revenues is placed in a grand prize fund which is only paid when an exact match of the six digit numbers is made. Drawings of the winning numbers are held once or twice a week and if there is no winner, the jackpot "rolls over" to the next drawing. If no one wins for several weeks, the jackpot can become enormous, as evidenced by New York's \$41 million lotto jackpot. Most lotto games also include lesser prizes for matching four or five out of six numbers, for instance.

START-UP

Without exception, new lottery states have started with instant games. State lottery directors testify that to ensure successful start-up, instant games have proven to be the most efficient direction to take. With the timely passage of the enabling legislation and the seed money appropriation, plans call for instant game tickets to go on sale in September 1987 and the introduction of an on-line game six to eight months later.

A seed money or start-up appropriation is needed to allow the lottery to make payments for goods and services rendered before it generates its own cash flow. The funding is necessary primarily for salaries, consultant services, facility leases, office equipment, and computer hardware and software as well as capitalizing an initial prize pool. The lottery should be able

to negotiate a schedule of deferred payments to the successful instant game vendor to minimize the required funding. State General Fund appropriations will be needed in both FY 1987 and FY 1988 with prompt payback once lottery revenues are received.

Total required seed money will be between \$2.5 and \$3 million.

ALLOCATION OF LOTTERY REVENUE

Lottery gross sales are divided into three expenditure categories: prize payments, net proceeds, and operating expenses. Operating expenses include commissions to retailers (usually 5-6%), and actual administrative costs such as ticket production, consulting services from private lottery firms, advertising, computer services, salaries, and other support services. These costs will vary with size of the state and maturity of the lottery, but commonly run 10 to 15% in addition to the retailer commissions. After deducting operating costs, and prize payouts (45-50%), the remaining portion (30-40%) represents the net proceeds to the state.

In reviewing the administrative cost proportions of the lottery states, administrative expenses of the smaller states are well above the national average, and the costs of the larger states fall well below the average. There appears to be evidence of economies of scale, especially in advertising and computer expenses. Therefore, it is inappropriate to take at face value, the administrative costs of a large, mature lottery such as New Jersey and New York and compare that to a new lottery state.

FY 1985		Prizes	Net Rev	Expenses
Total Sales (\$ Millions)	State(Population)	% Sales	% Sales	% Sales
0 - 199	Vermont(.5)	49.6	23.7	26.7
	New Hampshire(.95)	42.3	31.5	26.2
	Maine(1.1)	52.6	25.8	21.6
	Delaware(.6)	49.7	39.0	11.3
	Oregon(2.6)	50.6	34.1	15.3
	Rhode Island(.96)	47.5	35.7	16.8
	Arizona(2.9)	46.7	30.2	23.1
	Colorado(3.0)	46.8	33.2	20.0
	Washington D.C.(.63)	47.9	34.8	17.3
	Washington State(4.2)	47.6	34.7	17.7
200 - 399	Connecticut(3.2)	46.8	43.2	10.0
400 - 599	-	-	-	-
600 - 799	Maryland(4.3)	53.6	38.7	7.7

800 - 999	Ohio(10.8)	49.1	39.6	11.3
	Michigan(9.1)	47.5	40.6	11.9
	New Jersey(7.4)	48.5	42.3	9.2
	Massachusetts(5.8)	55.1	34.7	10.2
1000 & Over	Illinois(11.4)	48.4	43.0	8.6
	New York(17.7)	47.5	41.8	10.7
	Pennsylvania(11.9)	46.7	44.2	9.1

In FY 1985, in the ten lotteries with less than \$200 million in gross sales, net proceeds amounted to less than 35% in six cases and less than 30% in two other. Only Delaware which began a lottery in 1975 and Rhode Island which started games in 1974 approached the 40% mark.

FUNCTIONS A STATE AGENCY MUST PERFORM

State lotteries are operated in generally the same way with the day-to-day administration of three major organizational divisions resting with a Lottery Director appointed by the Governor. The attached organization chart reflects a staffing proposal for 119 positions. This is consistent with the staff size in Iowa (131) and Missouri (210).

Security will be responsible for employee background checks and facility security; ticket security and procedures for receiving, handling, distributing and storing tickets; game security and monitoring access to computer software and hardware; retailer and vendor background investigations; and breach of security issues and investigation of invalid claims because of ticket tampering.

Administration will be in charge of all accounting systems, ticket accounting and validation systems, payment of prizes, procurement and contract services, facilities management, personnel, data processing, and network telecommunications.

Marketing will have primary responsibility for the design, distribution, promotion, and sale of all lottery products. This will include the management of a comprehensive retail sales network, regional offices, and lottery sales representatives.

ESTIMATED STATE REVENUE

Projecting revenues from a state lottery is precarious and difficult because there are so many unknowns and no objective data upon which to base calculations. Factors that influence the estimate include economies of scale, population distribution, population mobility, types and number of games played, operating expenses, public education and acceptance, and interstate competition.

Nonetheless, we have estimated that a lottery could generate roughly \$30 to \$35 million in net revenues annually. This is based primarily on experience in Colorado and estimates in Iowa and should be considered to reflect primarily the operation of an instant game. Essentially they equate to \$40 to \$50 per capita purchases annually with a net take of 30 to 35%.

The operation of an on-line game and some maturity in the lottery could increase the gross revenues and reduce the operating costs, thus increasing the projected revenues. One should be extremely cautious, however, for several reasons:

1. Until recently, lotteries tended to be concentrated in more populous urban, and/or Eastern states.
2. We will be competing with another state having twice our population for our largest market. This may significantly affect our ability to sell both instant and on-line tickets in Johnson and Wyandotte counties.
3. Since Kansas is grappling with a series of long-term serious economic problems, the projected per capita sales may not develop.

ENABLING LEGISLATION

A lottery is a unique entity in state government, in that it is the only state agency with a mission identical to a private business - selling a product in a fashion which maximizes revenue. In drafting the enabling legislation, three key ideas were consistently addressed: flexibility, integrity, and security. Fortunately, we can learn from the mistakes made by established lottery states.

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0196 shall be composed of: (1) The executive director or a Kansas
 0197 lottery employee designated by the executive director; (2) the
 0198 chairperson of the commission or a commission member desig-
 0199 nated by the chairperson; and (3) the director of the division of
 0200 purchases or an employee of such division designated by the
 0201 director. Prior to negotiating a major procurement contract, the
 0202 committee shall solicit bids or proposals thereon. The division of
 0203 purchases shall provide staff support for the committee's solici-
 0204 tations. Upon receipt of bids or proposals, the committee may
 0205 negotiate with one or more of the persons submitting such bids
 0206 or proposals and select from among such persons the person to
 0207 whom the contract is awarded. Such procurements shall be open
 0208 and competitive and shall consider relevant factors, including
 0209 security, competence, experience, timely performance and max-
 0210 imization of net revenues to the state. If a procurement nego-
 0211 tiating committee is utilized, the provisions of K.S.A. 75-3738
 0212 through 75-3744, and amendments thereto, shall not apply.

0213 (c) Before a major procurement contract is awarded, the ex-
 0214 ecutive director shall conduct a background investigation of: (1)
 0215 The vendor to whom the contract is to be awarded; (2) all officers
 0216 and directors of such vendor; (3) all persons who own a 5% or
 0217 more interest in such vendor; (4) all persons who own a control-
 0218 ling interest in such vendor; and (5) any subsidiary or other
 0219 business in which such vendor owns a controlling interest. The
 0220 vendor shall submit appropriate investigation authorizations to
 0221 facilitate such investigation. The executive director may require,
 0222 in accordance with rules and regulations of the commission, that
 0223 a vendor submit any additional information considered appro-
 0224 priate to preserve the integrity and security of the lottery. In
 0225 addition, the executive director may conduct a background in-
 0226 vestigation of any person having a beneficial interest in a vendor.
 0227 The secretary of revenue, securities commissioner, attorney
 0228 general and director of the Kansas bureau of investigation shall
 0229 assist in any investigation pursuant to this subsection upon
 0230 request of the executive director. Whenever the secretary of
 0231 revenue, securities commissioner, attorney general or director of
 0232 the Kansas bureau of investigation assists in such an investiga-

Meetings conducted by the procurement negotiating committee shall be exempt from the provisions of the Kansas open meeting act, K.S.A. 75-4317 through 75-4320a, and amendments thereto.

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0344 (1) Has been convicted of a felony in this or any other
0345 jurisdiction, unless at least 10 years have passed since satisfac-
0346 tory completion of the sentence or probation imposed by the
0347 court for each such felony;

0348 (2) has been convicted of an illegal gambling activity in this
0349 or any other jurisdiction;

0350 (3) has been found to have violated the provisions of this act
0351 or any rule and regulation adopted hereunder;

0352 (4) is a vendor or an employee or agent of any vendor doing
0353 business with the Kansas lottery;

0354 (5) resides in the same household of an employee of the
0355 Kansas lottery or of a member of the commission; or

0356 (6) has made a statement of material fact to the Kansas lottery,
0357 knowing such statement to be false.

0358 (i) For a partnership to be selected as a lottery retailer, the
0359 partnership must meet the requirements of subsections (g)(2),
0360 (g)(3) ~~and~~ (g)(4) and each partner must meet the requirements of
0361 subsections (g)(1), (g)(2)(3), (g)(4) and (h)(1) through (h)(6).

and (g) 5

0362 (j) For a corporation to be selected as a lottery retailer, the
0363 corporation must meet the requirements of subsections (g)(2),
0364 (g)(3) ~~and~~ (g)(4) and each officer or director and each stockholder
0365 who owns 5% or more of the stock of such corporation must meet
0366 the requirements of subsections (g)(1), (g)(2) (3), (g)(4) and (h)(1)
0367 through (h)(6).

and (g) 5

0368 (k) For an unincorporated association to be selected as a
0369 lottery retailer, the association must meet the requirements of
0370 subsections (g)(2), (g)(3), ~~and~~ (g)(4) and each officer or director
0371 must meet the requirements of subsections (g)(1), (g)(2)(3), (g)(4)
0372 and (h)(1) through (h)(6).

and (g) 5

0373 (l) If a lottery retailer's rental payments for the business
0374 premises are contractually computed, in whole or in part, on the
0375 basis of a percentage of retail sales, and such computation of
0376 retail sales is not explicitly defined to include sale of tickets or
0377 shares in a state-operated lottery, the compensation received by
0378 the lottery retailer from the lottery shall be considered the
0379 amount of the retail sale for purposes of computing the rental
0380 payment.

)

0677 (3) a spouse, child, stepchild, brother, stepbrother, sister,
0678 stepsister, parent or stepparent of a person described by subsec-
0679 tion (a)(1) or (2); or

0680 (4) a person who resides in the same household as any person
0681 described by subsection (a)(1) or (2).

0682 (b) Violation of this section is a class A misdemeanor upon
0683 conviction of the first offense and a class D felony upon convic-
0684 tion of a second or subsequent offense.

0685 (c) Notwithstanding subsection (a), the executive director
0686 may authorize in writing any employee of the Kansas lottery and
0687 any employee of a lottery vendor to purchase a lottery ticket for
0688 the purposes of verifying the proper operation of the state lottery
0689 with respect to security, systems operation and lottery retailer
0690 contract compliance. Any prize awarded as a result of such ticket
0691 purchase shall become the property of the Kansas lottery and be
0692 added to the prize pools of subsequent lottery games.

0693 (d) Nothing in this section shall prohibit lottery retailers or
0694 their employees from purchasing lottery tickets and shares or
0695 from being paid a prize of a winning ticket or share.

0696 ~~20.~~ (a) As nearly as practical, an amount equal to
0697 not less than 45% of the total sales of lottery tickets or shares,
0698 computed on an annual basis, shall be allocated for payment of
0699 lottery prizes.

0700 (b) The prize to be paid or awarded for each winning ticket or
0701 share shall be paid to one natural person who is adjudged by the
0702 executive director or the director's designee to be the holder of
0703 such winning ticket or share, except that the prize of a deceased
0704 winner shall be paid to the duly appointed representative of the
0705 estate of such winner or to such other person or persons appear-
0706 ing to be legally entitled thereto.

0707 (c) The executive director shall award the designated prize to
0708 the holder of the ticket or share upon the validation of a claim or
0709 confirmation of a winning share. The executive director shall
0710 have the authority to make payment for prizes by any means
0711 deemed appropriate upon the validation of winning tickets or
0712 shares.

0713 (d) The right of a person to a prize drawn or awarded is not

New (e) Each person who purchases a lottery ticket or share agrees to be bound by rules and regulations adopted by the commission and by the provisions of this act.

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House Bill No. 2043
Summary

SEC. 1. Title. The Kansas Lottery Act.

SEC. 2. Definitions. Of primary importance here is the definition of "major procurement." It is defined as the procurement, through contract or otherwise, of gaming products and services such as tickets, computer facilities, advertising and promotional services, annuity contracts, prize payment services, consulting services, equipment and other products and services unique to the operation of the Kansas lottery. It becomes important because of special bidding and procurement provisions contained in Section 5.

SEC. 3. Organizational Structure. This section establishes the Lottery as an independent state agency with an executive director and certain positions in the unclassified service. The executive director is to be appointed by the Governor, confirmed by the Senate and serve at the pleasure of the Governor. The positions in the unclassified service include the deputy director, director of security, director of administration, director of marketing, all other marketing division personnel and a personal secretary and special assistant. The section also requires the Department of Revenue to take the lead role in the start-up of the lottery with other agencies to assist as directed by the Governor. Finally, it provides that the Director of Purchases is to use the provisions of current law relating to emergency purchases when requested by the lottery director during the first 18 months of operation.

SEC. 4. Powers of the executive director. Specified authority includes appointment and supervision of all staff, contracting for necessary gaming services and products, contracting with retailers for sale of tickets, entering into agreements for multi-state lotteries, and auditing the records of retailers and compelling the production of those records if necessary.

SEC. 5. Exemption from lowest responsible bid requirement. Major procurement contracts, as defined in Section 2, would be awarded through the use of a special negotiating committee normally composed of the executive director, the chairperson of the lottery commission, and the director of purchases. As amended by House Committee of the

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Whole, the Kansas Lottery Commission shall designate certain major procurement contracts, or portions thereof, solely to minority business enterprises.

SEC. 6. Duties of the executive director. Specified responsibilities include keeping complete accounting records, making periodic financial reports to the Commission, Legislature and Governor, providing for an periodic independent security review, arranging a periodic independent evaluation of promotional and public information activities, submitting budget proposals and using electronic funds transfers for transferring monies from retailers to the lottery where possible. This section also requires that the odds of winning each lottery game are to be included in all printed promotional materials and information associated with the game.

SEC. 7. Annual audit. Requires an annual audit under the legislative post audit act. Audit services will be obtained through the contract audit committee with costs paid by the Kansas Lottery.

SEC. 8. Lottery Retailers. This section authorizes the director to enter into contracts with retailers for the sale of lottery tickets. Contracting, rather than licensing, was recommended by several states and industry representatives because of the ability it provides to move expeditiously when necessary.

SEC. 9. Kansas lottery commission. This section establishes the Kansas Lottery Commission to consist of five members appointed by the Governor and confirmed by the Senate. Members are to serve overlapping four-year terms, and not more than three may be members of one political party. The bill provides that the Commission is to meet at least quarterly, advise the director on the lottery, and, in conjunction with the director, conduct on-going studies of lotteries and the Kansas lottery. The commission also must approve "major procurement" contracts and the annual budget submission.

SEC. 10. Adoption of rules and regulations. This section provides that the Commission is to approve rules promulgated to govern the lottery. Such rules are to be recommended to the Commission by the director. The rules will govern the types of games to be played, the manner of selecting winning tickets or shares, the payment of prizes, the frequency of drawings, types of ticket selling locations, and the amount and method of compensating retailers, and the types of

information to be provided by vendors, among other things.

Based on a recommendation received from the Iowa Lottery, the bill exempts the lottery from the notice, hearing and Joint Committee

review requirements for temporary rules and regulations. The rules would still be subject to review by the Attorney General, filed with the Revisor and published in the **Kansas Register**. During the play of a game, it may become necessary to make changes due to the lack of participation or deficiencies in the game itself. To avoid a substantial drop in sales, the lottery must be able to act promptly before the game is jeopardized.

SEC. 11. Lottery operating fund. This section outlines the financial structure of the lottery. It provides for a lottery operating fund into which are paid all ticket and share proceeds and other receipts. Proceeds are to be used to pay the expenses of the lottery, including the administrative costs of the agency and compensation to retailers. Remaining revenues are to be transferred to the lottery prize payment fund as necessary to pay prizes, and to the State Gaming Revenues Fund created by the 1986 Legislature. In FY 1988, monies not needed for other purposes are to be transferred to the Gaming Revenues Fund, while in Fiscal Year 1989 and beyond, the bill requires that not less than 30 percent of gross receipts is to be transferred to the Gaming Revenues Fund. All expenditures of the lottery are to be made in accord with appropriation acts of the Legislature.

SEC. 12. Lottery Prize Payment Fund. This section establishes the lottery prize payment fund and provides that is to be capitalized by transfers from the lottery operating fund.

SEC. 13. State General Fund Start-Up Appropriation. This section provides that any State General Fund appropriation to the lottery is to be considered a loan and is to be repaid within 24 months from the effective date of the appropriation. It also provides that the loan is not be considered an indebtedness of the State and that aside from the start-up appropriation, the State General Fund shall not be used or obligated to pay any expense of the lottery.

SEC. 14. Power and authority of peace and police officers. This section authorizes the director to designate certain lottery employees as peace officers. The designation of employees within the

Security Division as law enforcement officers was recommended by the Iowa and California Director of Security and endorsed by the Missouri Lottery Director who is a former FBI agent. This gives lottery security employees the authority necessary to make independent investigations of internal security, retailer security and game security.

SEC. 15. Appointment of an Assistant Attorney General. This section provides for appointment of an Assistant Attorney General by the Attorney General with approval of the director. The recommended system is similar to the situation with the ABC Division of the Department of Revenue. The Assistant AG is to be assigned exclusively to the lottery.

SEC. 16. Conflict of interest. This section prohibits commissioners, employees of the lottery and members of their household from knowingly having an interest in a business which contracts with the lottery or accepting gifts, hospitality other than food and beverages, or service of more than \$10 per year from someone known to be or to be seeking to contract with the lottery or to be or seeking to be a lottery retailer. It also prohibits vendors and the like from offering gifts of more than \$10 per year and makes the employees subject to all other state conflict of interest statutes.

SEC. 17. Fraud provisions. Makes attempts to defraud the lottery by altering, forging or counterfeiting tickets a class D felony.

SEC. 18. Prohibitions on selling tickets. Prohibits the sale of a ticket for a price other than the stated price, the sale of a ticket by other than a lottery retailer, and the sale to a person under 18 years of age.

SEC. 19. Prohibitions on purchasing tickets. Prohibits the purchase of tickets by, or the knowing payment of a prize, to employees of the lottery, a lottery commissioner or any officer or employee of a company currently engaged in supplying gaming services or products to the lottery. It also prohibits the purchase of tickets by, or knowing payment of a prize, to certain family or household members of the persons identified above. Lottery and vendor employees could be authorized in writing by the director to purchase tickets for purposes of an investigation. Retailers are not prohibited from purchasing tickets.

SEC. 20. Prizes. The section provides that as nearly as practical, 45 percent of lottery proceeds, computed on an annual basis is to be paid in prizes. It also provides that prizes are to be paid to one person only. Prizes are not assignable, but can be bequeathed in a will or probate. It also provides that unclaimed prizes are to be added to the prize pool of subsequent games, and lottery winnings are to be taxed as Kansas source income.

SEC. 21. Sales tax exemption. Exempts the sale of lottery tickets from state and local retail sales taxes. Iowa is the only lottery state that does not exempt ticket sales from sales tax. The tax is paid by the Iowa Lottery and submitted to the Iowa Department of Revenue. The practical effect of imposing the sales tax would be to reduce net earnings and transfer them to the State General Fund and those local governments with a sales tax.

SEC. 22. Wagering. This section makes conforming amendments to current law governing gambling and betting.

SEC. 23. Retail Liquor Stores. Amends provisions of current law to allow retail liquor stores to sell lottery tickets if selected by the lottery as a retailer.

SEC. 24. Retailer general tax clearance. Authorizes the secretary of revenue to disclose to the executive director of the lottery information regarding taxes, other than income tax, for applicants to become lottery retailers.

SEC. 25. Law Enforcement Training. Makes conforming amendments to the Kansas Law Enforcement Training Act.

SEC. 26. Check Writing Authority. Authorizes the Director of Accounts and Reports to designate one or more persons to sign warrants, on behalf of the Director of Accounts and Reports, for the payment of lottery prizes. This is considered essential to providing a service to lottery players.

SEC. 27. Computers. This section amends current law to allow the

lottery to acquire its own independent computer systems and facilities and to issue bids for such equipment independent of the Division of Information Systems and Communications. This is identical to the authority granted to Regents' institutions. All lotteries operate with their own computer systems and facilities because of the security needs.

SEC. 28. Retailer income tax clearance. Authorizes the secretary of revenue to disclose to the executive director of the lottery information regarding income taxes for applicants to become lottery retailers.

SEC. 29. Income Tax. This section makes conforming amendments to the Kansas Income Tax Act to include lottery winnings as Kansas source income.

SEC. 30. Sales Tax. This section makes conforming amendments to the Retailers' Sales Tax Act to exempt lottery tickets from the sales tax.

SEC. 31. Repealers. The section repeals required sections of laws.

SEC. 32. Effective date. Makes the bill effective upon publication in the **Kansas Register**.