

Approved _____

2/18/87
Date

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./~~xxx~~ on February 17, 1987 in room 254-E of the Capitol.

All members were present ~~except~~

Committee staff present:

- Mary Galligan, Legislative Research
- Mary Torrence, Assistant Revisor of Statutes
- June Windscheffel, Secretary to the Committee

Conferees appearing before the committee:

Mr. Jerry Cooper, District of Columbia

Senator Arasmith moved that the Minutes of February 16, 1987, be approved. Seconded by Senator Anderson. The motion carried.

The Chairman referred the Committee to SB141, concerning liquor by the drink, and said that there is a technical amendment to be offered on the floor. It concerns the right of the distributor to have an option in the law that he may deliver. Senator Bond moved that the Chairman be permitted to offer clarifying amendments in conformity with the motions made in this Committee. Seconded by Senator Strick. The motion carried.

The Committee was directed to turn its attention back to the discussion on the lottery proposal, HB 2043. Yesterday Senator Anderson had requested that a conferee speak on the proposal today, and the conferee is present.

The Chairman welcomed Mr. Jerry Cooper, former Commissioner of the District of Columbia lottery. Written testimony will be sent to the Committee to be made part of these Minutes. (Attachment #1)

Mr. Cooper said that those who are in the promoting of lottery ought to be of help in all jurisdictions. He said that once they got the legislation passed it was simple to put the lottery together. Mr. Cooper explained how they had set the lottery in motion and answered questions from the Committee.

The Chairman thanked Mr. Cooper for appearing to share his views about the lottery.

Tomorrow the Committee is to go through HB2043, to address a number of amendments that have been proposed by various people, as well as some clarifying ones that the Secretary of Revenue has suggested. It is the hope of the Chair to conclude lottery matters Wednesday; however, if the Committee does not get through at that time, will continue on Thursday.

The handout from Legislative Research, dated February 2, 1987, concerning the Liquor Law Review Commission Recommendations was before the Committee. (Attachment #2) The Chairman said the Committee must be very cognizant of the fact that the Commission did a lot of work on the Report. He asked for suggestions from the Committee.

Senator Bond moved with regard to the issue of taxation and allocation that this Committee request those matters go to an interim study. Seconded by Senator Martin. The motion carried.

Senator Morris made the conceptual motion that liquor store license fees be raised to \$250, and that it be included in the legislation. Seconded by Senator Bond. The motion carried.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FEDERAL AND STATE AFFAIRS,
room 254-E, Statehouse, at 11:00 a.m./~~a.m.~~ p.m. on February 17, 1987.

Senator Morris moved to develop a separate class for fraternal and veterans clubs and other class "A" clubs, where the fraternal clubs would pay a different fee from the other class "A" clubs. Seconded by Senator Strick. The motion carried.

Senator Morris moved to implement the Commission recommendations on wholesaler license fees, to have 3 levels of licensure fees: spirits, wine and beer, \$1,000 for each level. Seconded by Senator Strick. The motion carried.

The Committee will continue on tomorrow with the Liquor Law Review Commission recommendations, as well as lottery matters.

The meeting was adjourned at noon.

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Attachment #1

REMARKS OF JERRY COOPER, FORMER COMMISSIONER OF THE
DISTRICT OF COLUMBIA LOTTERY COMMISSION, PRESENTED TO THE
SENATE FEDERAL AND STATE AFFAIRS COMMITTEE ON
FEBRUARY 17, 1987

Good morning Mr. Chairman and Members of the Committee. I wish to thank you for the opportunity to have appeared before your Committee. I would also like to extend my appreciation to Senator Anderson for the invitation to address the Committee regarding the experience in establishing a lottery in the District of Columbia.

For the Committee's information, I would explain that I served for two years as the subcommittee chairman which studied the feasibility of establishing a lottery in the District of Columbia (D.C.). Following the establishment of the lottery, I was privileged to serve as a commissioner on the lottery Commission for a two year period. Prior to that time I was at the Bureau of Census in Washington, D.C. for approximately 30 years.

The establishment of the lottery in D.C. was an effort to eliminate illegal gaming in the District and also to return loss sales to the District. The people in the District were purchasing things like cigarettes, gasoline and other items outside of the District, mainly because of the attractiveness of the Maryland lottery.

The initiative which established the lottery passed overwhelming in the District. The ballot also had a dog racing initiative but it lost by 3 to 1. Several months later the dog racing provision was also passed overwhelmingly.

The Commission in establishing the administrative procedures relied on the state of Maryland - drawing on their experience. Maryland was

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very helpful in working with the District in establishing the lottery procedures.

I would also comment that all lottery vendors were very helpful. Because of the assistance for the vendors and the state of Maryland, the implementation of the lottery went very smoothly.

The first lottery in the District was very successful. The lottery sold \$25 million in scratch games in a matter of two weeks. The state of Maryland did not have in place the scratch "instant" game.

When we implemented the lottery we chose to use a "turn key" operation initially. The states role was to simply pay prizes and account for monies from the lottery.

The lottery in the District presently generates approximately \$150 million annually. Approximately \$35 - \$40 million flows to the general fund. Initially, however, the lottery monies were to go to education. I would stress at this point that it is very important and helpful if the public knows where the state's profit will be utilized.

The commissioner appointed to the District's lottery received a small stipend for their services. The chairman receives \$18,000 per year, while the commissioners receive a stipend \$15,000 a year. The way in which the Commission operated was to establish policies under which the lottery operated. The Commission in the District also had the responsibility of appointing the executive director.

Initially the Commission required a staff of 45 persons to begin the implementation steps. The staff of the lottery presently is approximately 90 - 110 staff members. The vendors which set up the turn key

operation also had their own staff. I would also comment that the Commission did require all employees of the lottery be finger printed.

At this point I would like to comment on how the Commission worked with vendors on contracts and the retail dealerships involved in the sale of lottery tickets.

The Commission basically relied of the vendors to run the lottery. Our experience with vendors has been problem free. This results mainly because of the volume of the contract. As mentioned earlier the D.C. lottery generates approximately \$150 million annually. The vendor gets approximately 4% of the gross receipts. A second reason for our success is that the vendors in the industry are very competitive in this \$12 Billion industry, also the vendors are bonded and this bonding can become very expensive in the event of serious foul up.

I would also like to mention that the District's lottery enabling statutes provided for a 30% minority participation in the lottery contracts. The vendors were very willing to achieve this required level of minority participation. The Commission also, in the request for proposal, requested the vendors to indicate how they intended to provide community participation if they were awarded the contract.

The Commission in the issuance of tickets utilized retail stores as outlets. The approach was to simply sell the tickets to the retailers with a discount which covered their commission for selling the tickets. This approach cut down on the Commission's bookkeeping requirements. We figured we would have less problems this way.

The retailers, once they were licensed and cleared by the Commission's

Security Staff's background check, could after the initial issuance of lottery tickets, pick up their tickets at a variety of locations throughout the District. We were not interested in using the banks as distribution points because they closed at 2 P.M. back east. We established this distribution system by the use of private contractors. Retailers could pick up tickets at any time. The Commission experienced no problems with attempts to use phony tickets because all tickets were validated and once sold to the retailers, the validation numbers were placed on the computer.

The Commission later established an on-line 3 or 4 digit game which is the real "bread and butter" of the lottery. We had to put this in place within 3 months in advance of a pending telephone strike. We completed this on-line game prior to the strike, but we started with 25 terminals.

The tickets we used in the lottery games did not have the odds printed on them, however, we did have signs printed which displayed the odds of winning. This approach was not legislated, it was simply public awareness.

The last point I would make is that the Commission paid to the public 55% in prizes with 35% going to the District. I believe the more prizes returned to the public, the more successful the lottery.

Again I would like to thank the Committee for allowing me to appear and Senator Anderson for the invitation.

MEMORANDUM

February 2, 1987

Attachment # 2
2-17-87

FROM: SENATOR EDWARD REILLY

RE: Liquor By-The-Drink Bill and Other Liquor Issues

The following major issues were identified by the Senate Federal and State Affairs Committee for inclusion in the liquor by-the-drink bill.

- Permit delivery of liquor and beer to liquor by-the-drink establishments and caterers by either wholesalers or retailers. A delivery charge would be allowed.
- Beverage server training requirements for employees of liquor by the drink establishments and caterers. The training requirement would be effective January 1, 1988.
- License fees as recommended by the Liquor Law Review Commission: \$2,000 for liquor by-the-drink establishments, \$1,000 for caterers, and \$25 per day for temporary permits.
- Sale of alcoholic beverages in liquor by-the-drink establishments and clubs between the hours of 9:00 a.m. and 2:00 a.m. seven days per week and on election days.
- The county option issues allowed by the constitutional amendment could be placed on any state general election ballot either by resolution of the county commission or by petition signed by 10 percent of the voters who participated in last election for secretary of state.
- The effective date of the act would be July 1, 1987.

Caterer license

- would be a type of liquor by-the-drink license;
- would require the licensee to have a principal place of business that may or may not be a liquor by-the-drink establishment;
- would require the licensee to have a state food service license;
- would require the licensee to meet the same criteria as other club licensees;
- would require submission of monthly reports to the Alcohol Beverage Control (ABC) as required for all on-premise licenses;

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- would require the caterer to provide notice to local law enforcement officials prior to each event;
- caterers would be authorized to operate in any "wet" county; and
- drink taxes would be based on the gross liquor receipts and would be collected at the location of the caterer's principal place of business.

Temporary Liquor by-the-Drink Permits

- would be limited to nonprofit religious, charitable, fraternal, educational, and veterans' organizations;
- the organization that obtained the permit would be prohibited from sharing profits with any other organizations or individuals;
- permits would be issued for a maximum of three consecutive days;
- an organization would be limited to four permits per year;
- a \$25 per day permit fee would be charged; and
- holders of temporary permits would be required to purchase liquor from retail liquor stores.

The following are other liquor law issues discussed by the Committee, but not included in the liquor by-the-drink bill. The Committee has not yet made recommendations on all of these issues:

- CMB: abolition of distinction from beer, Sunday and election day sales, state notification by licensees, and beverage handler training;
- revisions of the annual license fees for wholesalers, retailers, and clubs;
- taxation rates and allocation of revenue; and
- off-premise Sunday and election day sales.

MemoReilly.MG/bd

TO: SENATE COMMITTEE ON FEDERAL AND STATE AFFAIRS
 FROM: KANSAS LEGISLATIVE RESEARCH DEPARTMENT
 RE: LIQUOR LAW REVIEW COMMISSION RECOMMENDATIONS

2/3/87
 Attachment # A

The table below displays the topics of recommendations made by the Liquor Law Review Commission about which decisions have not been made by the Committee. None of the items listed would be required to implement liquor by the drink. The page numbers included in the table refer to the Commission report. An asterisk (*) has been placed beside items about which a decision has been made for liquor by the drink establishments but not for other segments of the industry.

Item/Issue	Page No.

TAXATION/ALLOCATION OF REVENUE	
Taxation	8 & 24
Allocation of Tax Revenue	11
GENERAL	
* License fees	8 & 11
Eligibility of Licensee's Spouse	12
Under-Age Purchases	12
Mandatory Minimum Penalty for Purchases by Minors	12
ABC Board of Review, Staffing and Powers of ABC	12
Limitations on Director of ABC	13
Employees of ABC	13
CLUBS	
Uniform Licensure Requirements	15
Liquor Establishments--Private Clubs	15-16
* Beverage Handler Training and Licensing	17
Promotional Activities	18
* Point of Purchase and Delivery	8
RETAILERS	
Residency Requirement	19

Licensure Requirements--Felons	19
Limit on Number of Retailers	20
Ownership of Retail Liquor Stores	20
Liquor Sales by Other Establishments	20
Sale of Non-Liquor Products	21
Use of Credit Cards	21
Point of Sale Merchandise	22
Restrictions on the Solicitation of Business	22
* Election Day Sales	22
Limitations on Wholesalers and Retailers--Public Service	13

The Committee has not yet addressed any of the Commission's recommendations about wholesalers and suppliers. Those recommendations are on pages 23-29 of the report.

Recommendations regarding minimum price markup and price and brand advertising also were made by the Commission but not yet addressed by the Committee. The Attorney General has been asked to review recent court decisions and issue opinions about how those decisions might impact Kansas laws.

* Election Procedure to Be In LBD

* LICENSE CHANGE IF VOTE OCCURS

* ALL EFFECTIVE JULY 1, 1987

10% OF THOSE WHO VOTED FOR SEC OF STATE PREVIOUS
ELECTION.