

Approved _____

May 4, 1990

Date

MINUTES OF THE HOUSE COMMITTEE ON FEDERAL AND STATE AFFAIRS

The meeting was called to order by Representative Ginger Barr at
Chairperson

1:45 a.m./p.m. on March 13, 1990 in room 526-S of the Capitol.

All members were present except:

Representatives Ensminger - Excused
King
Peterson

Committee staff present:

Mary Galligan, Kansas Department of Legislative Research
Lynne Holt, Kansas Department of Legislative Research
Juel Bennewitz, Secretary to the Committee

Conferees appearing before the committee:

Representative Bill Brady
Representative Mary Jane Johnson
Jim Yonally, TRAK East
Linton Bartlett, Legislative Liaison, City Administrator's Office, Kansas City

Chairman Barr directed the committee's attention to Attachment No. 1 a letter from Larry Montgomery, former executive director of the Kansas Lottery. A member of the committee questioned whether the letter could be construed as lobbying. Mr. Montgomery is currently employed by a national company involved with lotteries (G-Tech). The chairman explained the letter was the chair's attempt to keep the committee informed.

SCR 1636

Representative Brady explained the resolution is the result of a request of a group of volunteers in Parsons which have provided a large number of purple martin houses. Attachment No. 2 is an article from the Topeka Capital-Journal noting the sighting of purple martin scouts. Parsons is in the South American flyway for the birds.

There was no opposition to the resolution.

Representative Eckert moved to recommend the resolution favorably, seconded by Representative Douville. The motion was adopted.

HB 2912

Representative Johnson explained the bill would allow the city or county to become eligible to receive funds allocated from parimutuel to the non-profit organization holding the license for The Woodlands. The funds estimated to be paid to the non-profit organizations are estimated at \$250,000 - \$1.5 million. The estimates are thought to be low as the track has paid approximately \$3.5 million to the state. Taxpayers in Wyandotte County are unsatisfied that parimutuel funds are dedicated to economic development, yet there is no decline in their unemployment rate. She introduced Representative Reardon, present to answer questions.

Committee discussion:

1. When constitutionality was questioned, Representative Johnson responded the revisor's office advised the bills would be "O.K."
2. There are no known studies concerning the economic benefits received by Wyandotte County. To date, the city has done no studies regarding the economic benefits of having the track complex.
3. Both the city and county have a one cent local option sales tax applicable to concessions.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Federal and State Affairs,

room 526-S, Statehouse, at 1:45 ~~xxx~~/p.m. on March 13, 1990

4. Concern was expressed that voters approved parimutuel with the understanding non-profit money would be given to charities.
5. Representative Reardon explained the intent of the Wyandotte County delegation was to ask the city and county be considered as one of the charities for the non-profit. If the bill were to pass, there is no guarantee they would be selected by the TRAK East board whose members are all local residents. A member expressed concern at the number of ways a city could exert political pressure (e.g. zoning, services) on such a board.
6. There was a 49% increase in the Wyandotte County budget this year, primarily due to a federally mandated jail.
7. Subsection (e) would permit a non-profit to distribute all of its money to one organization, if it chose, not be required to distribute to four organizations as some members had supposed.

Jim Yonally opposed the bill based on the original intent of parimutuel legislation that racing be conducted by "bona fide non-profit organizations" and that the IRS issued a ruling suggesting TRAK East could lose its status by donating to any organization not qualified as a 501c3, Attachment No. 3.

Committee discussion:

1. Some of the expenses paid by a non-profit before distribution are: 18% take-out; state tax paid on it, portion on purses but the largest amount is for rent. The KRC approves every contract of the non-profit organization.
2. Mike Jones, Director of Parimutuels, KRC, advised the non-profit organizations had no accrual for 1989 and could not distribute any funds until 1990. There was no money distributed from the for-profit to the non-profit in 1989 with agreement on the contract which covered a certain amount of the profit to flow to the non-profit. A sliding scale increases \$13 million of the profit ratio increases over the non-profit.
3. Mr. Yonally was requested to supply a list of board members and an annual disposition of funds. He responded the application process for recipients will be open until July or August and is in progress. There is no regulation on when the money must be distributed (e.g. quarterly, annually). Mr. Yonally said there are no plans for a zero balance as "there may be some disaster" with which the board may want to assist. The distribution will begin when the money begins to come in with possible distribution of 50-60% at one time. If all proceeds are not distributed before June, 1991, then the non-profit organization would have to pay income tax.

HB 2913

Representative Johnson had explained the bill would take 5% of the parimutuel money currently used for economic development, received by the state and return it to the city and county where a track is located to reduce property taxes. The estimated state revenues on \$6 million at 5% would be \$300,000.

Committee discussion:

1. Kansas City gave no tax abatements for the track though it did create a special benefit district for improvements to Leavenworth Road.
2. There are unfinalized negotiations with the developer to repair Leavenworth Road which runs parallel to the track. It was originally improved by the developer but did not meet Kansas Department of Transportation (KDOT) specifications and must be re-done.
3. The track complex is on the tax rolls and will yield approximately \$390,000 in property taxes.
4. Using minimum estimates of what would be generated to the state - 5% of that would be approximately \$550,000 (1 mill), the property tax reduction on a \$40,000 home would be approximately \$6.00 and \$13 - \$14 on commercial property.

Linton Bartlett spoke in support of the bill citing a 23% loss in tax base that was shifted to residential and small businesses, Attachment No. 4.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Federal and State Affairs,
room 526-S, Statehouse, at 1:45 ~~xxx~~ p.m. on March 13, 1990

Committee discussion:

The loss of inventory resulted in an \$11.3 million shift in the tax base.

Mr. Bartlett claimed this was not reflected in the 49% increase in the Wyandotte County budget.

There were no opponents to the bill.

HB 2790

A member explained an amendment was being prepared and requested the committee defer action until the revisor could be present.

The meeting was adjourned at 2:48 p.m. The next meeting of the committee is scheduled for March 14, 1990, 1:30 p.m. in Room 526-S.

GUEST LIST

FEDERAL & STATE AFFAIRS COMMITTEE

DATE March 13, 1990

(PLEASE PRINT)

NAME	ADDRESS	WHO YOU REPRESENT
JOE DICK	780N. 7 KCK	WY COUNTY COMMISSION
BEV BRADLEY	TOPEKA	KS ASSOC OF COUNTIES
Jim Yonally	Overland Park K	TRAK East
Jean Younger	Lawrence	Rep. Roenbauch
Linton Kartlett	KCK	City of Kansas City
Russ Blosser	TOPEKA	KANSAS RACING COMMISSION
Mitte Jones	Topeka	KRC
Joseph		AP
W.M. BARR	Decatur, Ill.	Ipswich / Fairborn
Mary Ann	Overland Park, Ks	—
Carrie Harris	Ulysses, KS	Close-up Kansas
Jan Post	Ulysses, KS	close-up Kansas
Paul Myers	"	"
Whitney Blamiron	Topeka, KS	Wichita Greyhound Park

Larry and Gwen Montgomery
Flint Valley Ranch
Rt 7, 1920 West Union Road
Topeka, Kansas 66604

March 12, 1990

The Honorable Ed Riley, and
The Honorable Ginger Barr
Senate and House Chairpersons
Federal and State Affairs Committees
The Kansas Legislature
Topeka, Kansas 66603

Dear Senator Riley and Representative Barr:

It was disappointing to return home from an extended trip and find Freedom of Speech taken advantage of so vociferously by a few people speculating on Fiscal Year 1989 results of the Kansas Lottery.

As most Kansans will recall, the Kansas Lottery was doing quite well until March, 1989 when Lottery advertising and promotions were curtailed.

Although it appears that a few members of the Legislature profess to be surprised by Fiscal Year 1989 results, prior notice of what to expect was plentiful:

The 1987 Legislature anticipated a sales slump in FY-89 and authorized an \$8.5 million carry-forward into FY-89 to absorb the expected higher cost of operations to sales during the second year.

In 1989, the appropriate committees were alerted to expect a parallel reduction in sales if the Lottery was required to reduce advertising and promotions during the last quarter of the 89 fiscal year, as the enclosed letter of March 27, 1989 indicates.

While the Lottery has contributed nearly \$50 million for economic development and other projects in less than 2 1/2 years, certainly more could have been achieved in this first Kansas experience of running a business within state government. Future Kansans will benefit from efforts to treat the Lottery more as a business. For example:

Rather than comparing Kansas with states that had already passed through their start-up phase prior to FY-89, Kansas could have been more accurately compared with those same states during their own start-up time frame. Up until late March, 1989 Kansas was performing very well as to both sales and cost control, when compared to other states during their similar period of start-up operations.

What happened between the last week in March, 1989 when the Lottery was \$3.7 million ahead of projected sales and June 31, 1989 when the Lottery fell \$4.3 million behind projected sales? How was that \$8 million lost? What caused the Lottery to go from a reasonable cost to sales ratio in March, 1989 to a lousy cost to sales ratio in June, 1989?

HOUSE FEDERAL & STATE AFFAIRS
Attachment No. 1
March 13, 1990

THE 1987 LEGISLATURE ANTICIPATED A SALES SLUMP IN FY-89 AND AUTHORIZED AN \$8.5 MILLION CARRY-FORWARD INTO FY-89 TO ABSORB THE EXPECTED HIGHER COST OF OPERATIONS TO SALES DURING THE SECOND YEAR.

In recognition of normal start-up considerations for any business, the 1987 Legislature granted various exceptions from state procurements for the first 18 months; exempted the Lottery from returning any money to the State during the first year, FY-88; and, authorized an \$8.5 million carry-forward from FY-88 into FY-89 to absorb the anticipated second year (FY-89) shortfall.

(In actuality, in FY-88 the Lottery returned \$11.5 million to the State, including early pay back of the start-up loan, and still carried forward a reduced \$2.75 million to cover the anticipated short-fall in FY-89. Not bad planning, not bad management and not bad results for a young enterprise.)

IN 1989, THE APPROPRIATE COMMITTEES WERE ALERTED TO EXPECT A PARALLEL REDUCTION IN SALES IF THE LOTTERY WAS REQUIRED TO REDUCE ADVERTISING AND PROMOTIONS DURING THE LAST QUARTER OF THE 89 FISCAL YEAR, AS THE ENCLOSED LETTER OF MARCH 27, 1989 INDICATES.

The enclosed letter and its attachment clearly identified 1) the Lottery was \$3,780,204 ahead of projected sales at that time; 2) the Lottery was on target to reach between \$73 million and \$75 million in sales if the Governor and Senate's recommended budget was adopted; and 3) the proposed operating fund decrease would result in a decrease in sales to \$65 million to \$67 million.

(In actuality, the Lottery did sustain a reduction. To absorb the funding reduction with only three months left in the fiscal year meant there was not enough time to attack fixed costs; reduction of fixed costs would take too long to accomplish. Flexible costs had to be cut; it meant cutting advertising and promotional expenses that were fueling the Lottery's success. As expected, sales tumbled. Fortunately, with support from the 1987 and 1988 legislative sessions, the Lottery had planned ahead for the necessary reserve money to be set aside in the operating fund to cover the short-fall that did occur.)

RATHER THAN COMPARING KANSAS WITH STATES THAT HAD ALREADY PASSED THROUGH THEIR START-UP PHASE PRIOR TO FY-89, KANSAS COULD HAVE BEEN MORE ACCURATELY COMPARED WITH THOSE SAME STATES DURING THEIR OWN START-UP TIME FRAME.

The Kansas Lottery was barely Six months old when FY-89 began and barely 18 months old when it was over. It is unusual to compare any start-up lottery to those that have been operating longer. The lotteries with whom Kansas was compared were already in their second, third and fourth years of operation. There were no comparisons with these same lotteries during their same start-up periods.

(In actuality, Kansas compares extremely favorably when compared to other states during their same period of start-up, i.e., starting with their eighth month of operation, as was Kansas when FY-89 began.)

(During the equivalent nine month pre-reduction period of time, sales for the states referred to ran from \$20 to \$24 per capita, with Kansas in the middle at \$21.96. During that same period, the Kansas ratio of costs to sales was also comparable.)

Appropriate months of comparability for other states to obtain an accurate comparison with the age of the Kansas Lottery during FY-89, are:

	<u>Nine month comparison before reduction in March</u>	<u>Three month comparison after reduction in March</u>
Kansas	July, 1988 thru March, 1989	April, 1989 thru June, 1989
Iowa	March, 1986 thru November, 1986	December, 1986 thru February, 1987
Missouri	September, 1986 thru May, 1987	June, 1987 thru August, 1987
Oregon	December, 1985 thru August, 1986	September, 1986 thru November, 1986
W. Va.	September, 1986 thru May, 1987	June, 1987 thru August, 1987

WHAT HAPPENED BETWEEN THE LAST WEEK IN MARCH, 1989 WHEN THE LOTTERY WAS \$3.7 MILLION AHEAD OF PROJECTED SALES AND JUNE 31, 1989 WHEN THE LOTTERY FELL \$4.3 MILLION BEHIND PROJECTED SALES?

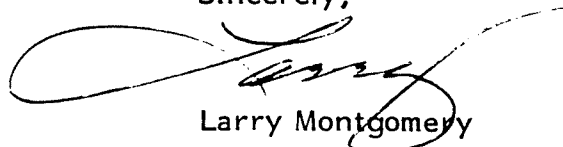
The enclosed letter of March 27, 1989 provided a clear indication of how to lose \$8 million. Cutting advertising and promotions meant losing sales . . . an \$8 million loss of sales in three months, with a corresponding negative ratio of costs to sales.

(In actuality, Kansas Lottery employees tried to accomplish with more hours of willingly dedicated time what had previously been accomplished with advertising and promotions. The commitment was there. The determination was there. But like anything who's fuel has been depleted, the Lottery faltered and slowed.)

Jerry Simpson and the entire lottery team is doing a commendable job in accomplishing a challenging task . . . running a business within the structure of government. Please help them build on the \$50 million already contributed to the State through Lottery sales by providing the flexibility and funding necessary to once again fuel a successful sales effort.

With every best wish, I remain

Sincerely,



Larry Montgomery

FSA
1-3
3-13-90



Kansas Lottery

March 27, 1989

The Honorable Rex B. Hoy
Chairman of the Sub-Committee
State Capitol, Room 280 West
Topeka, KS 66612

Mike Hayden
Governor

Larry Montgomery
Executive Director

Dear Representative Hoy:

As requested by your sub-committee on March 20, the enclosed FY-89 Lottery budget forecast analysis was prepared and presented to the sub-committee on March 21st. The budget adjustments indicated in that document are necessary if the sub-committee wishes to have the Lottery generate our projected sales.

As you know, the Lottery imposed on itself a \$1,600,000 budget reduction for this fiscal year, followed by an additional reduction of \$400,000 by the Governor, for a total of \$2,000,000 in reductions.

Any significant additional reductions will have to result in less sales. A reduction of \$5,057 in personnel, however, appears to be manageable.

Our best calculation of salary and wages for the remainder of this fiscal year is \$258,000 per month times the remaining 4 pay periods left in this fiscal year, \$1,032,000. Salary and wages expenditures to date have been \$1,962,943. Our requirement for the fiscal year is \$2,994,943 (\$1,962,943 plus \$1,032,000). We have included three months salary for a Financial Director, recommended by the Senate and approved by the Governor, in our projections.

With the Senate's recommended budget, and our current positive sales posture, we anticipate sales of 73 to 75 million dollars for this fiscal year; thus a gaming fund transfer of between \$21,900,000 and \$22,500,000 to the State.

Excluding no limit funds for vendor commission and on-line communication, our bottom line requirement is \$10,278,307 for FY-89.

If line items were unchanged, the \$10,278,307 will allow us excess in some line items such as stationary & office supplies, tickets and freight appropriations to balance the short fall in travel, contractual services, capital outlay and professional supplies. Without this amount we will have to use advertising dollars to pay for these short fall items; resulting in a corresponding decrease in sales and gaming fund transfers. The \$800,000 operating fund decrease discussed last Friday would potentially decrease sales this year to approximately 65-67 million dollars. We will probably see some decrease already in March sales, because our discussion on Friday caused me to cancel some advertising already planned for this week.

The Honorable Rex B. Hoy
March 27, 1989
Page 2

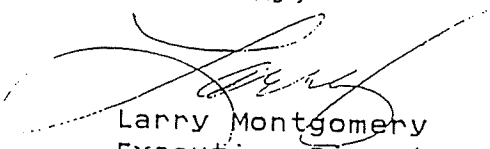
It is imperative that the \$1 million from accounts receivable be left in the Lottery Operating Fund as the Senate recommended. The 1987 Legislature approved an 8.5 million dollar carry forward from FY 88 to FY 89. The intent for the carry forward was to aid the Lottery in the difficult second and third year of operation. The 1988 Legislature decreased this carry forward from \$8.5 million to \$2,750,000.

The Lottery is using a portion of this \$2,750,000 carry forward in FY 89. The Senate Sub-Committee realized this, and only requested that 30% of the \$1.4 million accounts receivable be transferred to the Gaming Revenues Fund. An additional transfer of \$1 million would have disastrous consequences on Lottery operations.

As requested by your sub-committee, the enclosed survey with community and economic development leaders indicates support for continuation of the Community Economic Development Conferences and the Lottery's role therein.

If I can provide additional information or be of any other service, please do not hesitate to contact me.

Sincerely,



Larry Montgomery
Executive Director

LM:CP:ps

cc: Rep. Henry Helgerson
Rep. Anthony Hensley

Enclosures: Budget Forecast Analysis
Community Conference Survey

FSA
1-5
3-13-90

CB

	PROJECTED	ACTUAL	DIFFERENCE
JULY			
On Line	2,200,000	2,239,814	39,814
Instant	3,600,000	4,165,486	565,486
Pull Tabs	0		
TOTAL	5,800,000	6,405,300	605,300
AUGUST			
On Line	2,200,000	2,271,630	71,630
Instant	3,600,000	4,444,408	844,408
Pull Tabs			
TOTAL	5,800,000	6,716,038	916,038
SEPTEMBER			
On Line	2,400,000	2,484,396	84,396
Instant	1,400,000	1,298,589	(101,411)
Pull Tabs			
TOTAL	3,800,000	3,782,985	(17,015)
OCTOBER			
On Line	2,500,000	2,366,300	(133,700)
Instant	2,200,000	2,664,299	464,299
Pull Tabs	100,000	113,652	13,652
TOTAL	4,800,000	5,144,251	344,251
NOVEMBER			
On Line	2,800,000	2,893,865	93,865
Instant	3,250,000	3,245,913	(4,087)
Pull Tabs	350,000	399,012	49,012
TOTAL	6,400,000	6,538,790	138,790
DECEMBER			
On Line	2,500,000	2,831,259	331,259
Instant	2,250,000	3,190,044	940,044
Pull Tabs	675,000	334,957	(340,003)
TOTAL	5,425,000	6,356,300	931,300
JANUARY			
On Line	2,500,000	2,373,255	(126,745)
Instant	3,000,000	3,621,135	621,135
Pull Tabs	800,000	535,392	(264,608)
TOTAL	6,300,000	6,529,782	229,782
FEBRUARY			
On Line	2,300,000	3,154,109	854,109
Instant	2,750,000	3,007,631	257,631
Pull Tabs	725,000	264,450	(460,550)
TOTAL	5,775,000	6,426,190	651,190
MARCH			
On Line	2,500,000	2,574,464	74,464
Instant	2,750,000	3,299,689	549,689
Pull Tabs	875,000	231,415	(643,585)
TOTAL	6,125,000	6,105,568	(19,432)
TOTAL TO DATE:			
On Line	21,900,000	23,189,092	1,289,092
Instant	24,800,000	28,937,194	4,137,194
Pull Tabs	3,525,000	1,878,918	(1,646,082)
TOTAL	50,225,000	54,005,204	3,780,204

Topeka couple spot purple martin scout

Another herald of spring was sighted Sunday: a purple martin scout.

Roland and Eva Schmidt, 5418 S.W. Sena Drive, said they saw a male martin fly into one of their two birdhouses at about 6:20 p.m. Sunday.

"He came out and flew into the second house, so I think he's going to stay the night," Roland Schmidt said.

The dark purple birds spend the winter as far south as Central and South America and return north in the spring, with one or two scout birds appearing first. Schmidt said he spotted martins on March 11 last year, too.

Schmidt has had purple martins live in birdhouses at his house since

about 1971, he said. In addition to his two 12-chamber birdhouses, he also has a 24-chamber castle for the birds to live in and usually has between 60 and 75 martins as tenants before the birds fly south in mid-August.

Male martins are a dark, shiny purple that appears to be almost black, while female martins have a gray-colored chest, he said. The birds are about the same size as an English starling, their natural enemy, Schmidt said.

Martins eat mostly insects, averaging about 2,000 mosquitos a day, he said.

"It makes a noticeable difference in your yard, and your neighbors will notice it, too," he said.



The Racing Association
of Kansas East

TESTIMONY BEFORE THE HOUSE COMMITTEE

ON FEDERAL AND STATE AFFAIRS

March 13, 1990

Madam Chairman and members of the committee, my name is Jim Yonally, representing the board of directors of Trak East, the non-profit corporation holding the organization license for the Woodlands race track in Kansas City. We appreciate the opportunity to appear today in opposition to HB 2912.

As you know, HB 2912 would allow the organization licensee to contribute all, or a portion, of their profits to a city or county where the racing facility is located, to be used to reduce their property taxes. We believe this is not what the legislature had in mind when they approved the constitutional amendment, nor is it what the people of Kansas had in mind when they voted for the amendment.

We have already received hundreds of inquiries from religious, charitable, benevolent, and educational interests who want to be considered for funding. We believe this type of entity is what all of us had in mind regarding the conduct and profit of racing, not property tax relief for just one area of the state. I might add that we do pay local property taxes, just like any other business operation.

The constitutional amendment requires that racing be conducted by "bona fide non-profit organizations". There is no further definition in that constitutional article. However, in the bingo amendment, the words "bona fide non-profit" are followed by the words, "religious, charitable, fraternal, educational and veterans organizations". We submit that it is these types of organizations that most of us thought should profit from the operation of parimutuel wagering.

Finally, we have a ruling from the IRS that suggests, to me, that we could lose our status as a tax-exempt, non-profit corporation if we donate our profits to any organization that does qualify as a 501c3.

We urge you, on behalf of the many charitable interests throughout the state, not to approve HB 2912. I would be happy to try to answer any questions.

HOUSE FEDERAL & STATE AFFAIRS
Attachment No. 3
March 13, 1990

TESTIMONY TO THE HOUSE FEDERAL AND STATE AFFAIRS
COMMITTEE ON HOUSE BILL 2913

LINTON BARTLETT, CITY OF KANSAS CITY, KANSAS

The City of Kansas City, Kansas supports House Bill 2913 because it would provide property tax relief for the citizens of Kansas City and Wyandotte County. The exemption of merchants and manufacturer's inventories from property taxation, combined with the accelerated depreciation on machinery, resulted in a loss in the tax base of Wyandotte County of about twenty-three (23) percent. This loss in the tax base caused large shifts in the property tax burden on to residential property owners and small businesses. Many residential owners saw increases of over 100%, while many small businesses had increases in excess of 250%.

House Bill 2913 would give some measure of property tax relief to those taxpayers. Also, the City of Kansas City has consistently called for alternative revenue sources to help reduce the reliance on the property tax, and House Bill 2913 would help accomplish that objective.

Therefore, the City of Kansas City supports House Bill 2913 and respectfully asks the House Federal and State Affairs Committee for favorable action on this measure. Thank you for the opportunity to express our position on this legislation.