

Approved July 8, 1991
Date

MINUTES OF THE HOUSE COMMITTEE ON FEDERAL AND STATE AFFAIRS

The meeting was called to order by Representative Kathleen Sebelius at
Chairperson

1:00 ~~xxx~~/p.m. on Monday, April 29, 1991 in room 526-S of the Capitol.

All members were present except:

Representative Edlund - Excused	Representative Graeber - Excused
Representative Wagnon - Excused	Representative Charlton - Excused
Representative Sprague - Excused	Representative Hamilton - Excused
	Representative Krehbiel - Excused

Committee staff present:

Lynne Holt - Kansas Legislative Research Department
Mary Torrence - Office of the Revisor, Kansas

Conferees appearing before the committee:

SB 385 SB 401 - Proponents
Ralph Decker, Director of the Kansas Lottery
Carl Anderson, Kansas Lottery

Chair Sebelius called the meeting to order.

SB 385 and SB 401

Ralph Decker and Carl Anderson testified together in favor of SB 385, and explained to the Committee that if SB 385 was passed with the suggested amendments, SB 401 wasn't needed. In addition to several technical amendments, the bill contains two important features. First, it allows the Kansas Lottery to contract with corporations, and is needed in case Lotto America incorporates, which is expected.

Secondly, the bill lowers the percentage payout to the EDIF fund from 30% to 15% for instant games. The conferees told the Committee that evidence from other states indicated that the number of prize winners directly influenced the number of players. Kansas was the lowest paying state for prize money, and the conferees indicated that more prizes would result in a higher net to the state, because they expected a substantial increase in players.

In response to questions, the conferees said that none of these funds would be used by the lottery; they would be returned to the players. There were questions asked about the total prize percentage in the bill, and it was clarified that the 45% total for prizes was existing law, which was amended in the Senate to 55%.

Committee members expressed some scepticism about the projections in the report that sales would be increased by over 100%, ultimately yielding a profit to the state. Lottery conferees stated, in response to Committee questions that the results would be immediately apparent, and that they would be glad to return to the Committee in January to report on the success of the new percentage. The Chair assured the Committee that if the bill received favorable consideration, she intended to require a report as a first item of business in 1992.

There was some Committee discussion about the effective date, about the effects of moving it to publication in the Register. Opposition was expressed since budgets are built on existing revenue.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON FEDERAL AND STATE AFFAIRS,

room 526-S, Statehouse, at 1:00 ~~xxx~~/p.m. on Monday, April 29, 19⁹¹.

Representative Baker moved to adopt the suggested lottery amendments, Attachment #1, including the written language, and requested the Lottery report back to the Committee in January. Representative Roper made a second to the motion.

Representative Roy offered a substitute motion to adopt the new language, with the exception of the new percentage for instant games; that would remain 45% as for all games. Representative Smith made a second to the motion.

Representative Roy made a substitute motion to add a sunset provision for July 1, 1992, to determine whether the new percentage of prize money did attract new players. Representative Smith made a second to the motion, which passed on a voice vote.

Representative Roper moved to report SB 385 favorable as amended. Representative Long made a second to the motion, which passed on a voice vote.

The meeting was adjourned.

SUMMARY OF PROPOSED AMENDMENTS TO KANSAS LOTTERY ACT

The Kansas Lottery believes that the proposed amendments to the Kansas Lottery Act, set forth in Senate Bill 385, are of great importance to the Lottery, and more significantly, the State of Kansas. The seven changes presented in the bill are, for the most part, of a technical nature, and all will have a positive fiscal impact. We will try to summarize the proposed changes in the order they appear.

1. Make the Kansas Lottery a retailer - K.S.A. 1989 Supp. 74-8708(a) - (page 2, lines 18-21, which also affects K.S.A. 1989 Supp. 74-8702{e}, page 1, line 26 and {h} - page 1 line 39, and K.S.A. 1989 Supp. 74-8719{e} - page 8, lines 8 & 9.)

The proposed amendment authorizes the Kansas Lottery to become a retailer and make direct sales at locations it chooses within the state, although attempting to minimize the competitive effect on other retailers.

There are numerous occasions where the Lottery is interested in giving away Lottery tickets as promotional prizes, which requires that the party obtaining tickets must purchase tickets from a retailer and subsequently receive credit from the Lottery. This is burdensome on the party conducting the promotion, as well as the Lottery. There are also instances where the Lottery wants to conduct ticket sales at special events, but local retailers are not interested in view of the time, effort and expense involved to make a 5% retailer commission. It is not the Lottery's intention to compete with existing retailers, but merely to benefit everyone involved by selling tickets at regional offices and at promotions or special events which require the availability of a retailer.

Of the 33 lotteries operating in the United States, 22 are permitted to sell lottery tickets at public events or at lottery offices.

2. Eliminate the need for annual renewal of retailer contracts - K.S.A. 1989 Supp. 74-8708(c) (page 2, lines 30-32.)

This proposed change will eliminate the need for the annual renewal of Lottery retailer contracts issued after July 1, 1991. The initial application fee will be the only fee paid by Lottery retailers. Subsection (c) of K.S.A. 1989 Supp. 74-8708 should be amended to eliminate renewals.

In the past, upon renewal, the Lottery has reinvestigated the retailer to determine that it still meets the qualifications for selection as a Lottery retailer, which among other things includes further checking of criminal records and the taxing subdivisions where the Lottery retailer will sell tickets. With over 2,000 retailers, contract renewal has been a very time-consuming routine for Lottery staff, has aggravated numerous retailers, has irritated county treasurers, and has resulted in the non-renewal of virtually no retailers. Although we feel that a periodic check staggered over a three-year period may be warranted, the current renewal has had nothing but negative results.

This would also result in a substantial reduction in time and expense involving Lottery staff (security and retail coordinator) because of considerable reduction in written and telephone communications necessary to perform criminal background checks and to determine the tax status of potential retailers.

3. Fraternal organizations - K.S.A. 1989 Supp. 74-8708(k) (pages 3, lines 35 & 36 and 38 & 39.)

We currently have as retailers, fraternal organizations which may be corporations or unincorporated associations with numerous officers and directors who have no direct control over the operation of the organization. The purpose of the proposed change is to limit the number of people currently required to meet the standards of this statute, to those who may exercise some control over the association or organization seeking to become a retailer. Subsection (k) of K.S.A. 1989 Supp. 74-8708 should be amended to appropriately deal with fraternal organizations which are corporations or unincorporated associations.

We are presently required to do background checks on all officers and directors of a corporation or unincorporated association to determine whether or not the entity they represent meets the qualifying standards of K.S.A. 1989 Supp. 74-8708(j) or (k). Background checks on all those members of a fraternal organization who bear the title of an officer or director, creates a considerable amount of unnecessary work for not only the Lottery staff but the Department of Revenue and the taxing subdivisions of the state and does nothing beneficial as far as the security or integrity of the Lottery is concerned.

This would also result in a substantial reduction in time and expense involving Lottery staff (security and retail coordinator) because of considerable reduction in written and telephone communications necessary to perform criminal background checks and to determine the tax status of potential retailers.

4. Commission Authorization to Enter Written Agreement - K.S.A. 1989 Supp. 74-8709(g) (page 5, lines 11 & 12.)

This proposed change broadens the authority of the Lottery Commission to permit it to enter into agreements with corporations comprised of representatives of one or more other state lotteries and to participate in the operation, marketing and promotion of a joint lottery, or joint lottery games currently provided by subsection (g) of K.S.A. 1989 Supp. 74-8709.

The Multi-State Lottery Association (MUSL) which operates Lotto-America in 16 lottery jurisdictions, currently is contemplating incorporating as well as forming, new and separate corporations for new games which may be developed. The provisions of subsection (g) of K.S.A. 1989 Supp. 74-8709 do not permit the Kansas Lottery Commission to enter into agreements with a corporation made up of representatives of other lottery states and the District of Columbia, and it is the belief of the MUSL members that incorporating the MUSL, as well as other entities which may be formed to develop and market new multi-state games would be in the best interests of all participants. Such corporations would not have members but would be represented by a board of directors comprised of a representative of each lottery state choosing to participate. The role of the corporation will be virtually identical to that now authorized by the MUSL agreement. (K.S.A. 1989 Supp. 74-8731).

The costs of incorporating the MUSL should be borne by the current MUSL without without additional assessments from the member states. Thus, it is not presently anticipated that additional funds from the lottery operating fund will be necessary to fund such a change.

5. Transfers to the State Gaming Fund - K.S.A. 1989 Supp. 74-8711(d) (page 6, lines 23-33.)

The proposed amendment reduces the percentage amount of revenues received from instant lottery ticket sales presently required by subsection (d)(2) of K.S.A. 1989

Supp. 74-8711. The intent is to specifically and dramatically increase sales on instant lottery products (instant tickets and pull-tabs).

For the Kansas Lottery to grow and attract appreciable new revenues, it is imperative that the Lottery's current prize payment range of 47 to 49% on instant tickets be increased to 65%. Kansas has the lowest instant pay percentage of any North American lottery as far as instant ticket winners is concerned. A survey of lottery states reflected tremendous increases in sales as a result of increased payouts on instant tickets. The most dramatic story comes from Massachusetts where an increased prize payout from 50% to 65% increased Massachusetts' gross revenues from over 54 million dollars to over 466 million dollars, and the net dollars to the state from almost 22 million dollars to almost 117 million dollars. Although not as dramatic, 14 other states surveyed reflected tremendous revenue increases based upon prize payout increases. Data from the states surveyed graphically illustrates the benefits of such increases, particularly when they reach the 65% level. Increases in instant ticket sales have historically bolstered on-line sales, on which we do not anticipate increasing the current payout percentages of 45%. We have an additional document with specific information supporting such a change.

The only increased costs attributable to such a change would be the costs of purchasing additional tickets because of enhanced sales and the costs associated with delivering those tickets.

6. Non-Monetary Prizes - K.S.A. 1989 Supp. 74-8712(b)
(page 7, line 2.)

Currently, the Lottery is not permitted to pay the holders of valid winning lottery tickets anything other than monetary prizes. We believe that it would be beneficial to be able to actually offer prizes other than cash prizes on occasion.

In the past we have advertised certain prizes, such as automobiles or vacation packages as prizes, however, in actuality we paid monetary prices which would permit the purchase of an automobile or a vacation package at a favorable price we had previously negotiated with vendors. We feel that being able to purchase non-monetary prizes from the prize payment fund, where we could obtain major discounts in price under the

state's purchasing system, would benefit the State of Kansas, the Lottery and prize winners.

For non-monetary prizes purchased there would be a very positive fiscal impact because purchases would be at costs substantially below the retail value of the products.

7. Prize Payment - K.S.A. 1989 Supp. 74-8720 (page 8, lines 20 - 24 and 33.)

In 1988 K.S.A. 74-8720 was amended twice with one new section entitled K.S.A. 74-8720, and the other, 74-8720a. Since the two statutes cover identical subject matter, this is basically a cleanup amendment to eliminate confusion. Subsection (d) concerning assignment also needs to be amended to be consistent, since it does appear to conflict with subsection (b).

The proposed changes of Senate Bill 385 will be of tremendous benefit to the Lottery and to the State of Kansas. Most importantly, player interest and revenues to the state should increase dramatically.