

Approved 4-1-91
Date

MINUTES OF THE Senate COMMITTEE ON Federal and State Affairs

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

11:00 a.m./p.m. on March 25, 1991 in room 254-E of the Capitol.

All members were present ~~xxxxix~~

Committee staff present:

Mary Galligan, Legislative Research Department
Mary Torrence, Office of Revisor of Statutes
Deanna Willard, Committee Secretary

Conferees appearing before the committee:

Neal Whitaker, Kansas Beer Wholesalers Association
Tuck Duncan, Kansas Wine and Spirits Wholesalers
Jim Conant, Acting Director, Alcohol Beverage Control Division
Ralph Decker, Director, Kansas Lottery
Jim Parrish, Kansas Securities Commissioner

The Chairman introduced the new director of the Kansas Lottery,
Mr. Ralph Decker.

Staff briefing on: SB 384 - allowing alcohol distributors to have
interest in retailing premises outside franchise territory.

Staff said this bill would amend the statute that prohibits a distributor
from having ownership in property used by any licensee to whom he
sells. This would allow him to have such an interest in premises
outside his territory.

Staff briefing on: SB 385 - Kansas Lottery, retailers non-monetary
prizes.

Staff said this bill represents several amendments to the Kansas
Lottery Act.

- 1) Would include Kansas Lottery in definition of retailer to allow
them to sell lottery tickets, though employees couldn't purchase
tickets or be awarded prizes.
- 2) Establishes tickets be sold in a manner to minimize the effect
on other retailers.
- 3) Retailers contracts would remain in effect until canceled or
terminated.
- 4) Fraternal organizations must meet the same requirements as unincorporated
associations.
- 5) Would limit requirements of afore-mentioned groups to just officers
and directors who exercise control over the organization.
- 6) Extends authorization for joint lottery to include corporations
composed of representatives of other states' lotteries.
- 7) Changes the amount transferred monthly to the Gaming Revenue
Fund to the sum of 30% of total monthly sales revenue and 15% of
revenue from the sale of instant and pull-tab tickets, less estimated
returned tickets.
- 8) Allows for purchase of non-monetary prizes.

Staff noted there is another bill, SB 401, in Senate Ways and Means,
which addresses transfers to the gaming fund but would do it much
differently. It specifies greater of 22½% of monthly sales or amount
in excess of need. It would raise the minimum amount to be paid
as prizes to 55% from 45%.

Staff briefing on: SB 388 - General law enforcement powers of securities
act investigations.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Federal and State Affairs,
room 254-E, Statehouse, at 11:00 a.m./~~p.m.~~ on March 25, 1991

Staff said the bill would give special investigators more general law enforcement powers than they currently have.

Neal Whitaker, Kansas Beer Wholesalers Association, gave testimony on SB 384. He explained that this bill addresses a case of a wholesaler who owns property outside of his territory on which there are ball diamonds. 41-703 prohibits leasing space at the diamonds to an concessionaire of another company. (Attachment 1)

He said the boundaries can be changed. The supplier determines how large an area a distributor has. He suggested amending the bill into HB 2295 due to lateness of the session. There is a similar prohibition in 41-311. Mr. Whitaker said he did not see potential for real abuse. There are separate territories and would be no financial benefit.

Tuck Duncan, Kansas Wine and Spirits Wholesalers, requested that the committee amend the bill, and the ABC concurs, to clarify a technical problem with the language at K.S.A. 41-2632(b)(1) so as to provide that a distributor may provide to licensees under the provisions of this section information regarding brands available for purchase from retailers, consumer advertising materials as authorized by the trade practice regulations (and the B.A.T.F.,) so long as no inducements as otherwise prohibited by the law are employed. This clarification is consistent with current interpretation of the law and legislative intent at the time of its passage in 1987. The Kansas Beer Wholesalers and the Kansas Retail Liquor Dealers Association have indicated they do not object to this request.

Mr. Jim Conant, ABC, said the amendment does not appear to compromise the intent of 41-703 and that the department does not have a position on the bill as it has no negative impact. (Attachment 2)

Ralph Decker, Kansas Lottery, presented testimony which summarized the proposed amendments to SB 385. (Attachment 3) He said these changes will benefit the people of Kansas. They are, for the most part, housekeeping. He urged looking carefully at transfers to the State Gaming Fund, saying sales will go up as the prize structure is increased, which will eventually result in more money for the state. He said as long as he is director, there will be no secrets in the Kansas Lottery and urged the committee members to call him anytime they had questions.

He distributed a paper entitled, "The Effect of Instant Lottery Ticket Prize Payout Percentages on Instant Lottery Sales." (Attachment 4)

Concern was expressed that before the percentages are changed, there should at least be hearings.

Carl Anderson, Kansas Lottery, responded to a question on video lotteries, saying that the issue is being explored at this time. The Chairman said the Attorney General estimates there are 8,000 video machines in use; many believe they are paying out but taxes are not being captured.

Mr. Becker said his philosophy is that Kansas has a viable lottery, but that the instant and on-line games should be going strong before video lottery is implemented.

Mr. Jim Parrish, said SB 388 would conform the law regarding enforcement powers to that of the ABC, the Kansas Lottery, and the Racing Commission. The Securities Commission was left out as a matter of oversight. The commission was given responsibility to administer the Loan Brokers

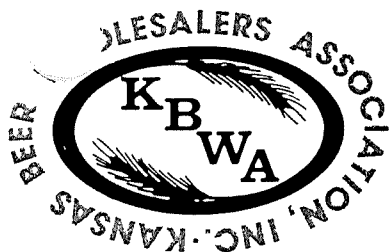
CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Federal and State Affairs,
room 254-E, Statehouse, at 11:00 a.m./~~p.m.~~ on March 25, 1991

Act and the Uniform Land Sales Practices Act but no enforcement powers.

The minutes of March 20 and March 21, 1991, were approved.

The meeting was adjourned at 12:00 noon.



Testimony
by
Neal Whitaker
Kansas Beer Wholesalers Association
for
The Senate Federal and State Affairs Committee
on
Senate Bill 384

In Kansas we operate what is called the "three tier system" for the sale and distribution of alcoholic beverages. The product transfers from the supplier to the wholesaler to the retailer to the customer and no tier may co-mingle. The reason for this system is to prevent a supplier or wholesaler domination in any one market. It allows for competition at each level but does not allow for collusion between two levels to fix a price. Beer wholesalers under **K.S.A. 41-703** are included in this three tier system. However, beer wholesalers only have small territories. They range in size from one county in eastern Kansas to almost one-sixth of the land area of western Kansas. Because of the law beer wholesalers are prohibited from investing in another tier of the industry, even outside their territory in areas where they have no influence in the market.

The particular case that brings this statute to light comes from recent experience by the Coors wholesaler in Leavenworth who owns property in Shawnee, Kansas outside of their territory. The property has baseball diamonds on it and they were preparing to lease space to a concessionaire who was going to sell beer. Because of **41-703** they are prohibited from leasing this property to another company even with an arms-length lease.

We strongly support the strict three tier system, however I don't believe that this system was intended to restrict business investments outside of the wholesalers' territory. Therefore, we request that **41-703** be amended in the manner demonstrated by **Senate Bill 384**.

Senate F&SA
3-25-91
Att. 1



KANSAS DEPARTMENT OF REVENUE
Division of Alcoholic Beverage Control
Topeka, Kansas 66612-1584

MEMORANDUM

TO: The Honorable Edward F. Reilly, Chairman
Senate Committee on Federal and State Affairs

FROM: Jim Conant, Acting Director
Alcoholic Beverage Control Division

DATE: March 25, 1991

SUBJECT: Senate Bill 384

Senate Bill 384, as introduced, would amend K.S.A. 1990 Supp. 41-703 regarding a distributor's interest in the business of other licensees. A distributor is currently prohibited from having any ownership or leasehold interest in property which is used as licensed premises by any licensee to whom the distributor sells. The bill would allow a distributor to have such an interest if the premises in question are outside the geographic territory within which the distributor is authorized to do business.

K.S.A. 1990 Supp. 41-703 is intended to ensure that a distributor does not have a means to influence a customer's purchases from the distributor and competing distributors. This is accomplished by prohibiting distributors from having any control or involvement in the premises or operation of their customers. The amendment proposed in this bill does not appear to compromise this intent, since it would only grant a distributor the ability to have an ownership or leasehold interest in licensed premises to which it cannot sell.

The department does not have a position on this bill, but would be happy to provide the committee with any additional information which may be helpful.

Senate F&SA
3-25-91

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.

Senate F&SA
3-25-91
Att. 3

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.

THE EFFECT OF
INSTANT LOTTERY TICKET
PRIZE PAYOUT PERCENTAGES
ON INSTANT LOTTERY SALES

Senate F&SA
3-25-91
Att. 4

ASSERTION: The Kansas Lottery must increase its instant prize payout percentage in order to maximize lottery sales and state revenues.

Supporting Fact: When the Kansas Lottery has paid out 48% or more in prize money, instant sales have risen significantly.

ASSERTION: When lotteries increase their instant prize payout percentages, their sales increase dramatically and more state revenue is generated.

Supporting Fact: The U.S. lotteries with the highest per capita instant sales and state profits generated usually are the ones with the highest payout percentages. Most pay out 55% or more. Those that pay out less than 50% are generally the ones with the lowest per capita sales.

ASSERTION: The Kansas Lottery, by paying out historically 42 to 48%, has seriously hindered its ability to increase instant sales.

Supporting Fact: The weekly per capita instant sales average for the U.S. lottery industry is 56c. Kansas weekly per capita instant sales for fiscal year 1990 were 22c. This ranks Kansas 30th out of 33 U.S. lotteries.

With the recent increase to the 48 to 50% level in our recent Kansas games and the steadiness of the prize payouts at that level, we are already experiencing modest gains and should end FY91 with an instant ticket sales gain of over one million dollars. However, the real increases in sales occur at prize payout percentages of 60 to 65% with 65% appearing to be the true firepoint.

CASE STUDY

THE MASSACHUSETTS LOTTERY

The Massachusetts Lottery is the classic example of how increases in instant payouts can significantly maximize state revenues. The Massachusetts Lottery has a population of 5.7 million, 2.4 times that of Kansas. However, in FY90 the Massachusetts Lottery generated \$673.2 million in instant sales 24.3 more times than the amount that the Kansas Lottery did that year.

While the Massachusetts Lottery is considerably older than the Kansas Lottery, it has also offered more products (Lotto, Daily Numbers, etc.) than has Kansas. More lottery games of course siphon away money from the instants, which makes Massachusetts' sales achievements that much more impressive. This is a summary of how they increased their instant sales and state revenues so significantly:

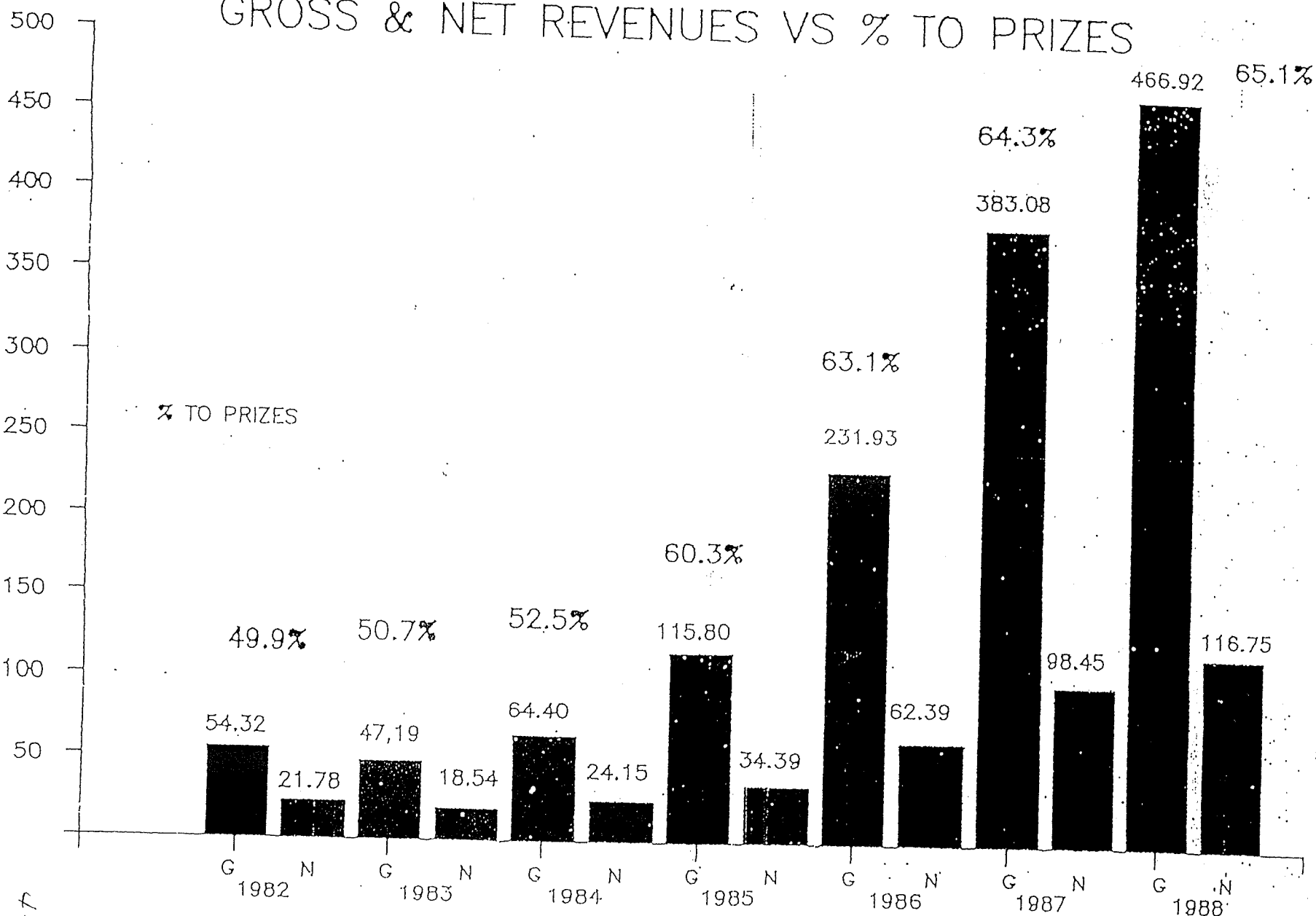
- In **1983**, the Massachusetts Lottery allocated an average of **50.7%** of their instant sales to prizes. These games, in turn, generated **\$18.54 million** for the state.
- In **1984**, the average prize payout was increased **3%** to **52.5%**. Revenues however, increased **30%** generating **\$24.15 million** for the state.
- In **1985**, the Massachusetts Lottery increased their prize percentage to **60.3%**, a **14%** increase over the previous year. Revenues subsequently increased by **42%** to **\$34.39 million**.
- The following years showed similar state revenue increases.
- In **1986**, the prize percentage averaged **63.1%**, **4%** greater than the year before. Revenues almost doubled from **\$34.39 million** (FY '85) to **\$62.39 million**, an **81%** increase!
- In **1987**, the prize percentage was **64.3%** only a **1%** increase yet revenues jumped nearly **\$40 million** to **\$98.45 million**, a **57%** increase.
- In **1988**, the Massachusetts Lottery increased the payout to **65.1%**. Revenues from instant games alone topped **\$116 million!**

This example demonstrates that there is a direct relationship between the prize payout and sales, and maximizing sales maximizes state revenues as shown on the following page.

MILLIONS OF DOLLARS

MASSACHUSETTS

INSTANT GAMES GROSS & NET REVENUES VS % TO PRIZES



G = GROSS REVENUES
 N = NET REVENUES ^{TO STATE} (BASED ON 10% OPERATING EXPENSES)

7-7

OTHER STATE LOTTERIES' EXPERIENCE

Other U.S. lotteries have achieved similar results as the Massachusetts Lottery when prize payout percentages were increased, as related below.

OREGON

The Oregon Lottery has a very similar population base to Kansas and served as the model for the Kansas Lottery start-up. The Oregon Lottery ran eight (8) instant games during Fiscal Year '89. Five of those games paid 50% in prizes; the remaining three paid 60%.

The 60 % payout games sold an average of \$500,000 to \$560,000 per week versus \$290,000 to \$410,000 for the 50% games (see chart).

It should be noted that the first four games of that year paid 50% and sales steadily declined from game to game. The next two games launched paid 60% and sales skyrocketed above \$500,000 per week. The next game thereafter reverted to a 50% payout and sales dropped almost in half. The last game however, offered a 60% payout and sales increased to approximately \$520,000 a week.

MISSOURI

Missouri, Kansas' neighbor to the east, was legislatively prevented from paying out more than 45%. As a result of this restriction, player interest fell, sales dropped and the Lottery was facing "bankruptcy".

Finally in August 1988, legislation passed which removed the payout restriction and the lottery increased the prize percentage to 55%. Within one week, sales rose more than 80% (from \$1.06 million to \$1.92 million). Sales since then have ranged from \$1.8 million to \$2.6 million a week and annual per capita has doubled from \$11 to \$22.

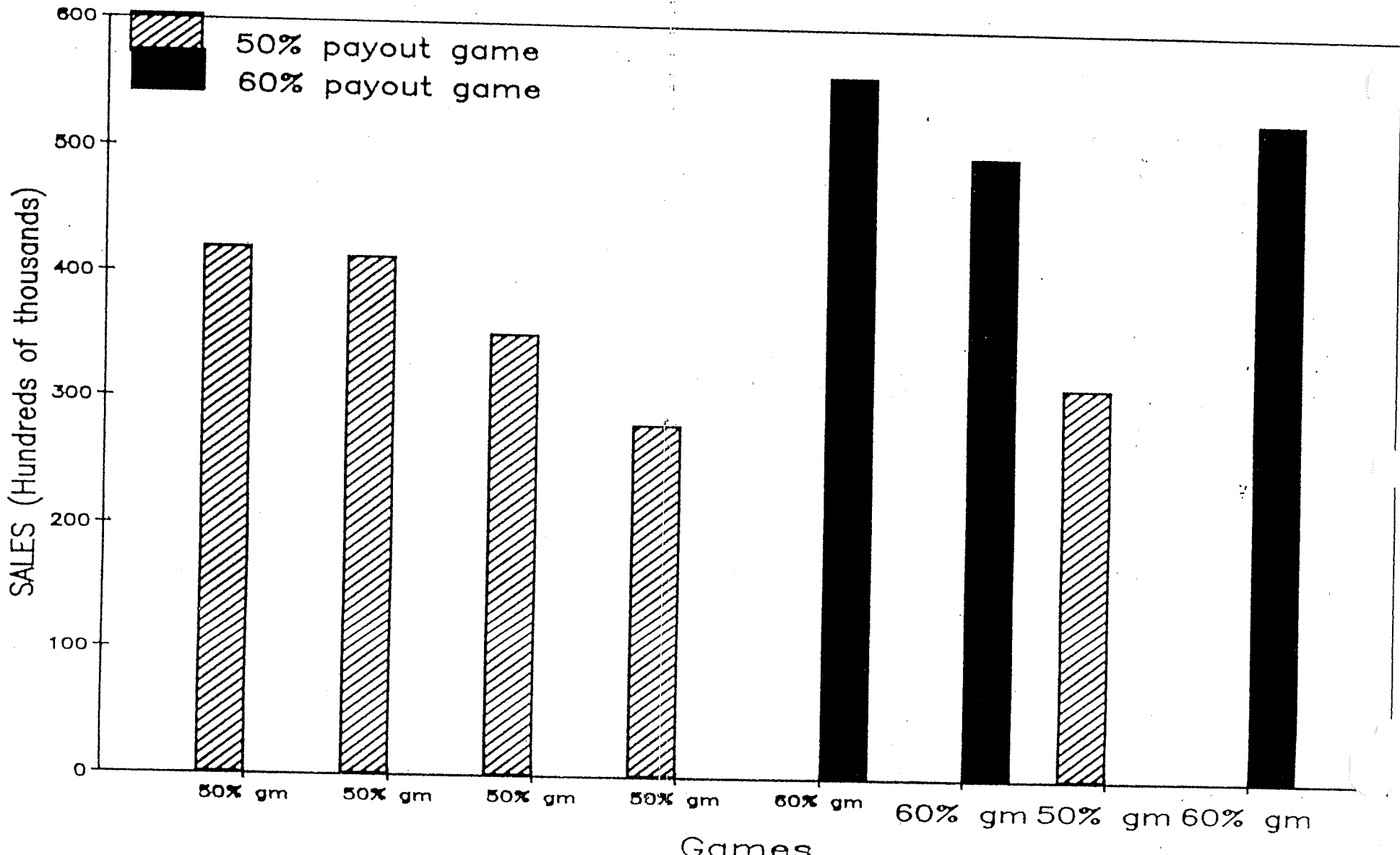
More importantly, sales revenue which had dropped 18% in 1987 and another 12% in 1988, reversed itself and increased 15% in 1989. The trend continued positive as state profits rose again in 1990 by 12%.

IOWA

Iowa, like Kansas, a midwestern state with a large rural base and a population of 2.9 million, was experiencing a steady decline of instant sales and state revenues from 1986 (their start-up year) through FY (fiscal year)'88.

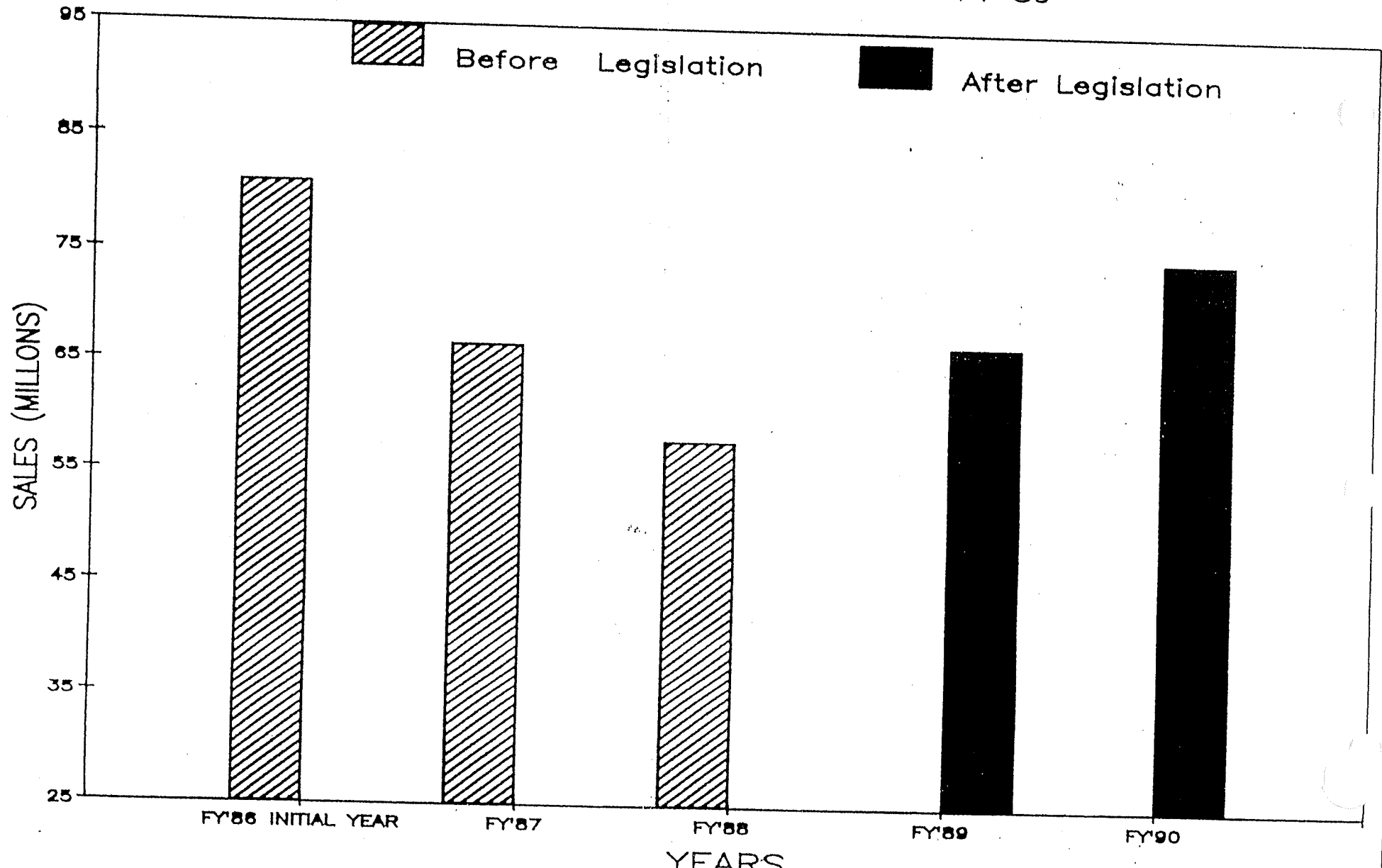
In FY'89, the Iowa Lottery increased its payout to 55%. This change increased sales by 21% or nearly 13 million dollars and arrested a three year sales decline. In December of 1989, the lottery moved to a 65% payout from 60%. The average sales for the first four weeks of their 60% games were 1,967,000 tickets. Average sales for the first four weeks of their 65% games were 3,114,000 tickets. The average change was 1,147,000 tickets, a 58% gain in sales. (Note from the Massachusetts and Iowa's experiences that the move to 65% seems to be the real kick-off level).

Effect of 50% payout vs 60% payout upon Sales
 OREGON LOTTERY
 Study conducted by lottery FY 89
 Average Weekly Sales



9-4

EFFECT OF RAISING PAYOUT UPON GOV'T PROFITS
MISSOURI LOTTERY
LEGISLATION PASSED BEGINNING OF FY 89



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MINNESOTA

A new lottery, is paying 50% now. It has no history of increased payouts. The Minnesota Lottery will go to a 55% payout in FY '92 and a 60% payout in FY '93.

WISCONSIN

Gradually has moved from 50.1 to 60.1% payouts since start-up. Sales have gradually increased over 25%. Note that new lotteries, like Wisconsin, would usually experience drastic reductions in ticket sales after the first four or five games when the novelty wears off a little bit.

MICHIGAN

In 1988 went from payout of 48 to 55%. In the succeeding nine months, sales increased 22%. Quote: "Evidence is clear that a further increase in the instant game payout percentage would result in further increases in gross sales".

NEW YORK

Increases in percentage prize payouts on lottery games increase sales. Scratch off game sales have quadrupled since prize payout was increased statutorily from 40 to 50% and with special prize funds to 55%.

WEST VIRGINIA

This new lottery started with a 45% payout. In May of 1990, it was permitted to move to 55% and it experienced a sales increase of 30%. In September of 1990, the move was made to a 60% payout and the lottery plans to remain at that level or above as the move has given them an additional increase of 47% in its sales. They say: "30% of ten million is more than 40% of five million".

COLORADO

Payouts have varied between 51% and 60% but with no particular "step" experience. Attached is a printout showing their results with some of their higher payout games. They say: "Increasing our prize payout percentage had a good effect on sales. We were able to increase our ticket sales by such a significant amount that net income increased even though we are contributing a smaller percentage of sales to net income".

VERMONT

About three years ago, Vermont increased instant ticket payouts from 50 to 58% resulting in a sales increase in excess of 60% and an increase in net profit of 37%.

NEW HAMPSHIRE

Increased instant ticket payouts approximately 5% about five years ago to the 60 to 65% level. This resulted in an increase in sales of 300%.

COLORADO REPORT- JANUARY 26, 1990

State mandated to pay 50%. Since 1983 beginning, has paid between 50% and 53.69%. Since late Spring has experimented with prizes in the 56.32 to 61.32% range. Below are shown the results of their last seven instant games.

FOUR GAMES - 51.37% to 53.69% PAYOUTS

AVERAGE PAYOUT.....52.40%
WEEKLY SALES AVERAGE....122,478 tickets
GROSS PROFIT...47.6% = \$58,300 weekly per game.

THREE GAMES - 56.32% to 61.32% PAYOUTS

AVERAGE PAYOUT.....59.01%
WEEKLY SALES AVERAGE....196,246 tickets
GROSS PROFIT...40.91% = \$80,284 weekly per game

Improvement = \$21,984 weekly per game
or 37.71%

SOUTH DAKOTA

Recently committed to increasing instant ticket prize structures to 65% starting September '90. Prior to that they had been paying about 50%. They ran a test game at 60% with the following results:

Average weekly sales of the three previous 50% games--\$87,085.
Average weekly sales of 60% game--\$130,178
Net on 50% games averaged \$19,158 weekly.
Net on 60% game averaged \$22,130 weekly.

They talk about "Quick nickel....slow dime--"

ARIZONA

"We, along with many other lottery staffs, believe a 60 to 65% payout is the only way to increase greatly the revenue in the instant game."

KENTUCKY

Paid 49 to 50% originally. Recently has increased to 60%. Estimates increase in sales of 20 to 30%.

CONNECTICUT

Is now creating prize structures in the 60% range. Their average weekly sales of 62% games = \$1.6 million. Average weekly sales of 50% games = \$1.2 million, increase is 33%.

SUMMARY

The saying is you get what you pay for... and if the Kansas Lottery were to pay a greater percentage of its sales in prizes, the state of Kansas would get more in proceeds.

This is based on findings in the majority of U.S. lotteries regardless of the lottery's populations, geographical location, demographic make-up, or product mix. There is a direct relationship between the prize payout and sales. The Kansas Lottery has found this to be true first hand.

Increasing the payout for the Kansas Lottery's instant games will increase the Lottery's sales and thereby maximize revenue to the state.

ANALYSIS OF PROCEEDS AT VARIOUS SALES LEVELS

Sales of Instant tickets for the last complete fiscal year (FY '90) were approximately \$25,000,000 and the State of Kansas share of that revenue was \$7,500,000.

At a 65% payout to the players and a continuance of the 5% payout to the retailers, the combined take of the Lottery and the State would be 30% total. Of that total the Lottery would need the same dollar amount it received on the FY '90 sales plus an approximate amount of \$400,000 for increased printing and distribution costs for additional tickets sold.

To the Lottery.....\$5,400,000

To the State at sales of \$43,000,000, an
increase in sales of 72%.....\$7,500,000
This is the break-even point.

To the State at sales of \$56,250,000, an
increase in sales of 125%.....\$11,475,000
This figure is believed to be attainable..

To the State at sales of \$62,500,000, an
increase in sales of 150%.....\$13,500,000
*This would be a goal figure which,
based on the experiences of other States,
might very well occur.*