

Approved _____
Date 4-13-90

MINUTES OF THE Senate COMMITTEE ON Federal and State Affairs

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

2:10 a.m./p.m. on April 12, 1991 in room 254-E of the Capitol.

All members were present ~~except~~:

Committee staff present:

Mary Galligan, Legislative Research Department
Deanna Willard, Committee Secretary

Conferees appearing before the committee:

Ralph Decker, Executive Director, Kansas Lottery
Carl Anderson, Assistant Attorney General, Kansas Lottery
Stan Chilton, Chilton Vending, Wichita, Kansas

Hearing on: SB 388 - General law enforcement powers of securities act investigators.

There was discussion on whether like powers are granted to other agencies, and it was suggested this provision could be allowed only in the case of felonies. The staff clarified that this would grant powers only to special staff. Staff will talk with Commissioner Parrish for additional information.

Hearing on: SB 449 - concerning video lottery games.

Information was distributed from Jonathan Small, Kansas Automatic Merchandising Association, showing VLT income study for Kansas in comparison with South Dakota. (Attachment 1)

Ralph Decker, Kansas Lottery, said he thinks it is a good bill. It is patterned after the South Dakota bill. He said it will produce between \$2 million and \$12 million new state general fund revenue.

There was discussion about the persons who currently have video lottery machines in their places of business, some in restaurants not licensed to sell alcohol. Carl Anderson was asked to address outlawing those machines.

Mr. Anderson said if there is going to be a successful state video lottery, those machines must be outlawed. Those persons could become legal operators.

Mr. Decker said the advantages for those people is they could be more open about their machines, and their business would, therefore, probably go up. The bill would allow machines only in places licensed to sell alcohol because the lottery can't sell to people under 18.

Stan Chilton said this provision is the same in all states with video lottery terminals. Staff clarified that South Dakota liquor laws are different than ours in that underage people cannot be in drinking establishments.

Concern was expressed that some businesses were being penalized by this bill because they did not sell liquor.

Mr. Decker and Mr. Anderson went through the bill draft, suggesting various changes. That language has been provided to staff and will be ballooned out for the committee.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Federal and State Affairs,
room 254-E, Statehouse, at 2:10 ~~a.m.~~/p.m. on April 12, 1991.

There was discussion on New Section 21 regarding counties which have prohibited video lottery machines. Staff said the language is similar to the liquor tax law that allocates money back to counties.

The Chairman asked the lottery officials to set out the major policy decisions the committee needs to consider.

The minutes of April 10 were approved. The minutes of April 11 were approved as amended with the correction of the spelling of a conferee's name and showing Senator Morris as voting "no" on the amendments to permit Sunday sales of NABs and to recommend HB 2552 as amended.

The meeting was adjourned at 3:00 p.m.



KANSAS AUTOMATIC MERCHANDISING ASSOCIATION, INC.
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VLT INCOME STUDY FOR KANSAS FROM DIRECT COMPARISON WITH SOUTH DAKOTA:

South Dakota

Kansas Comparison

1st year state share \$16.8 million actual @ 22 1/2 %

(\$18.0 million @ 25%)

\$18.0 million x 3.56 =
 \$64,080,000 x 1.2 per capita
 income difference =

\$76,896,000

PROJECTED KANSAS FIRST FULL YEAR VLT STATE INCOME.

As of 2/2/91

4998 terminals x \$424 net per terminal per week.

5000 x (424 x .25) = \$530,000 state share per week.

\$530,000 x 3.56 x 1.2 =
\$2,264,160

\
 Kansas share per week at 17th month of operation.

\$117,736,000 per year

Kansas Population	<u>2,467,845</u>	
South Dakota Population	693,294	= 3.56

Senate F&SA
 4-12-91
 Att. 1



207 East Capitol • Suite 200 • Pierre, SD 57501 • (605) 773-5770

SOUTH DAKOTA VIDEO LOTTERY
FACTS AND FIGURES
10/20/90

Population: 715,000 Start-Up Date: October 16, 1989

Number of Licensed Establishments: 1252

Number of Licensed Operators: 114

Number of Licensed Distributors: 9

number of Licensed Manufacturers: 9

Number of Video Lottery Terminals: 4,603

Maximum Wager: \$2.00 Maximum Payout: \$1,000.00

Minimum Prize Payout Under Law: 80%
(Terminals average payout during the first year: 90.4%)

Current Games Approved: Poker, Keno, Blackjack, Bingo

Revenue Split: The state has received 22.5% of net machine income during the first year. Net machine income is defined as cash into the terminal minus all cash paid out in prizes. Video Operators and Video Establishments split the remaining 77.5% of the net machine income. Their proportionate shares are negotiated between them with no state involvement. However, 90% of the agreements are split 50-50 between Operators and Establishments.

First Year Weekly Per Capita Net Machine Income: \$2.68 - \$2.78

Average Weekly Net Income Per Terminal: \$431.69

First Year Sales Figures:

Total Cash In: \$207.1 Million
Total Cash Out: \$132.3 Million
Net Machine Income: \$74.4 Million
State's Share: \$16.8 Million

Types of Licenses and Fees:

Manufacturer: \$5,000.00/year plus cost of testing individual games.

Distributor: \$5,000/year

Operator: The greater of \$100/machine or \$1,000 per year.

Establishment: 100.00/year

Vertical Integration: Prohibited by law i.e. manufacturer and distributors cannot be an operator or own establishments. However, establishments can own their terminals in which case they are licensed first as an establishment authorizing placement of the terminal and, secondly, as a operator to own the terminal.

Communication: All video lottery terminals must be linked to a central computer. Audit and security data will be retrieved daily via a dial-up system.

Most Commonly Asked Questions:

Is video lottery new to South Dakota? Although video lottery is a new lottery product, video gaming is not new to South Dakota. Video amusement machines offering similar games existed in virtually every community in the state. Commonly referred to as "grey machines," they have been legal, provided no monetary prizes were awarded for credits won. The video lottery legislation, which became effective on July 1, 1989, prohibits all "grey machines" currently operating in the state.

Do the machines dispense cash? No. Players can win credits redeemable for cash or free games. Video lottery terminals are not slot machines in that they do not directly dispense money to winners. Winning video lottery players can hit a button on each machine to dispense a printed voucher showing the number of credits won and the dollar amount of those credits to be paid by the retailers.

Where can the terminals be played? Video lottery terminals are only located in establishments that are a current holder of a on-sale alcoholic beverage license, including liquor, wines and malt beverages.

S.D. video lottery 'working beautifully'—and bountifully—thanks to good regs

"Video lottery" in the form of high payoff video poker and keno machines is the latest revolution to shake the foundations of the North American lottery industry.

Since the South Dakota lottery set up the continent's first statewide, centrally controlled video lottery network last year, players have spent \$77.4 million on the devices and took home \$49.4 million in cash prizes. The net profit for state government is expected to exceed \$8 million for the first nine months of operation.

Senior Editor Terri La Fleur recently interviewed South Dakota lottery executive director Susan Walker about the South Dakota test and the issue of video lottery itself.

Following are excerpts from that interview:

GWB: While coin machine operator associations nationwide are pushing video lottery bills, many lotteries seem to be ignoring the whole issue. Shouldn't they be concerned?

Walker: It's imperative lotteries keep abreast of any movement within their respective states to authorize video gaming and to initiate a dialogue with those private sector interests initiating such measures. Lotteries have much to lose by standing idly by and allowing the possible implementation of a poorly regulated product that will have a direct impact on their instant sales and position in the market.

GWB: Video lottery opponents claim video lottery games are merely slot machines regulated by the lottery, and they believe state lotteries are playing with fire by bringing video poker and keno into the lottery product mix.

Walker: For a number of years under the title of "traditional lottery products," I think the same analogy could have been drawn to the instant ticket as an instant slot machine. In addition, the introduction of the daily numbers on-line game was seen as a means to cut into the illegal numbers market. The same holds true for lotteries entering into sports betting. Are these products any more traditional because they are played "on-line"? I call the video lottery the Western states' response to another form of illegal gaming that is widespread in our part of the country: namely, poker machines disguised as amusement devices. So let's call a spade a spade.

GWB: So you're saying legalize VLTs and make a profit—don't just ignore the problem and hope it'll go away?

Walker: Yes. Legalize activities that are going on in states now that are prevalent and totally unregulated. Even though we may be crossing into what is deemed a "non-traditional lottery product" with video, I would argue it is not casino-style gambling given the



'I call the video lottery Western states' response to another form of illegal gaming that is widespread in our part of the country: namely, poker machines disguised as amusement devices. So let's call a spade a spade.'

—Susan Walker

following limitations in our law. Number one, there can be no more than 10 machines located in any licensed on-sale establishment. Number two, they are not slot machines in the sense that they do not directly dispense coins or tokens. Number three, there is a cap on the maximum bet per game and maximum prize amount. Games can be played in the range of 25 cents to \$2 and the maximum payoff is \$1,000 on a \$2 maximum bet. Number four, we prohibit manufacturer and distributor ownership of the machines or any ownership interest in establishments where machines are located. So when opponents to VLTs say this is nothing more than casino-style gambling, that's not true. We have greatly curtailed the casino lure by the restrictions imposed in our law.

GWB: Why is it so important to keep VLT manufacturers and distributors at arms length?

Walker: Our goal was to ensure video lottery did not foster major economic and social changes in South Dakota. We're not allowing outside interests to come in here and buy up property, and push for the removal of game prize and payoff limitations and turn it into another gambling mecca.

GWB: If gray-area, illegal machines were such a problem in South Dakota, why didn't the state just legalize them rather than installing brand new video poker lotteries?

Walker: With the present design of the machines there was absolutely no way you could get accurate accounting data. You had to make the mere possession of those machines a felony to ensure compliance and the success of the video lottery. If there would have been a grandfathering of the existing poker machines, we would not have accomplished anything. It would have been impossible to have total accountability.

GWB: So you're saying it's a bad bet to legalize gray machines?

Walker: If you're going to legalize existing gray machines, then just forget about video lottery or having it regu-

lated by a lottery. Have the state revenue department go in and tax them on a flat gross and good luck in ever being able to determine how much those machines are actually taking in.

GWB: Why did you take the multi-vendor route rather than a sole source for video lottery?

Walker: The rationale for allowing a multiple manufacturer environment was to offer game variety and competition in this market. I think game variety is essential to the long-term success of video lottery.

GWB: Is central monitoring of video lotteries really so necessary, considering the additional expense incurred by a lottery?

Walker: It is essential. The lottery needs to have a daily pulse on the transactions. This is for accountability, not only with machine placement throughout the state, but also to ensure timely and accurate accounting for the collection of the state's percentage of net machine income. We poll our machines on a daily basis and we collect from the operators every two weeks through electronic funds transfer. And it's working beautifully.

GWB: Why did you go the dial-up route for a central video lottery system rather than dedicated communication lines, such as those used with the daily numbers and lotto games?

Walker: The expense would have been horrendous. Secondly, we're talking about a different type of product. Each machine has an individual random number generator, which is tested to ensure total randomness of plays. There is no progressive jackpot in these machines. Further, we are not talking about jackpot amounts that can reach in the millions of dollars, which necessitates an on-line system, like for lotto. We can allow greater machine availability through a regular use telephone line on a dial-up system. We enroll each machine from the central site to allow play and also have the capability to turn it off.

GWB: Thank you very much.

ACROSS STATESLINE

FROM USA TODAY'S NATIONAL NEWS NETWORK

Preliminary Census total: 245,837,683

The 1990 Census has counted 245,837,683 people in the USA since April 1, in the costliest, most controversial head count ever. Here are the population and ranking for every state, and for the 50 biggest cities. The numbers are from 1980 Census and the preliminary 1990 Census. States and cities have three weeks to convince the Census that they need a recount. (Sun Belt booming, 1A; old cities declining, 3A)

RANKING OF THE STATES

1990 rank	1980 Rank	1990	% change
22	Alabama	3,894,025 (22)	3,984,384 +2.3%
49	Alaska	401,851 (50)	545,774 +35.8%
33	Arkansas	2,286,358 (33)	2,337,395 +2.2%
24	Arizona	2,716,546 (29)	3,619,064 +33.2%
1	California	23,667,764 (1)	29,279,015 +23.7%
26	Colorado	2,889,735 (28)	3,272,460 +13.2%
27	Connecticut	3,107,564 (25)	3,226,929 +3.8%
46	Delaware	594,338 (47)	658,031 +10.7%
4	Florida	9,746,959 (7)	12,774,603 +31.1%
11	Georgia	5,462,989 (13)	6,386,948 +16.9%
41	Hawaii	964,691 (39)	1,095,237 +13.5%
42	Idaho	944,127 (41)	1,003,558 +6.3%
6	Illinois	11,427,429 (5)	11,325,247 -0.9%
14	Indiana	5,490,212 (12)	5,498,725 +0.2%
30	Iowa	2,913,808 (27)	2,766,658 -5.0%
32	Kansas	2,364,236 (32)	2,467,845 +4.4%
23	Kentucky	3,660,334 (23)	3,665,220 +0.1%
21	Louisiana	4,206,124 (19)	4,180,831 -0.6%
38	Maine	1,125,043 (38)	1,218,053 +8.3%
18	Maryland	4,216,933 (18)	4,732,934 +12.2%
13	Massachusetts	5,737,093 (11)	5,928,331 +3.3%
8	Michigan	9,262,044 (8)	9,179,661 -0.9%
20	Minnesota	4,075,970 (21)	4,358,864 +6.9%
31	Mississippi	2,520,770 (31)	2,534,814 +0.5%
15	Missouri	4,916,766 (15)	5,079,385 +3.3%
43	Montana	786,690 (44)	794,329 +1.0%
36	Nebraska	1,569,825 (35)	1,572,503 +0.2%
39	Nevada	800,508 (43)	1,193,285 +49.1%
40	New Hampshire	920,610 (42)	1,103,163 +19.8%
9	New Jersey	7,365,011 (9)	7,617,418 +3.4%
37	New Mexico	1,303,303 (37)	1,490,381 +14.3%
2	New York	17,558,165 (2)	17,626,586 +0.3%
10	North Carolina	5,880,063 (10)	6,552,927 +11.4%
47	North Dakota	652,717 (46)	634,223 -2.9%
7	Ohio	10,797,604 (6)	10,777,514 -0.2%
29	Oregon	2,633,156 (30)	2,828,214 +7.4%
28	Oklahoma	3,025,487 (26)	3,123,799 +3.2%
5	Pennsylvania	11,864,720 (4)	11,764,434 -0.8%
43	Rhode Island	947,154 (40)	988,609 +4.4%
25	South Carolina	3,120,737 (24)	3,407,389 +9.2%
35	South Dakota	690,768 (45)	693,294 +0.4%
18	Tennessee	4,591,023 (17)	4,822,134 +5.0%
3	Texas	14,225,512 (3)	16,824,665 +18.3%
35	Utah	1,461,037 (36)	1,711,117 +17.1%
48	Vermont	511,456 (48)	560,029 +9.5%
12	Virginia	5,346,797 (14)	6,127,680 +14.6%
34	West Virginia	1,950,183 (34)	1,782,958 -8.6%
17	Washington	4,132,353 (20)	4,826,675 +16.8%
16	Wisconsin	4,705,642 (16)	4,869,640 +3.5%
50	Wyoming	469,557 (49)	449,905 -4.2%

TOP 50 U.S. CITIES

1990 rank	1980 Rank	1990	% change
1	New York	7,071,639 (1)	7,033,179 -0.5%
2	Los Angeles	2,968,528 (3)	3,420,235 +15.2%
3	Chicago	3,005,072 (2)	2,725,979 -9.3%
4	Houston	1,595,138 (5)	1,609,723 +0.9%
5	Philadelphia	1,688,210 (4)	1,543,313 -8.6%
6	San Diego	875,538 (8)	1,094,524 +25.0%
7	Dallas	904,599 (7)	990,957 +9.5%
8	Phoenix	789,704 (9)	971,565 +23.0%
9	Detroit	1,203,369 (6)	970,156 -19.4%
10	San Antonio	785,940 (11)	926,558 +17.9%
11	San Jose, Calif.	629,402 (17)	765,207 +21.6%
12	Indianapolis	700,807 (12)	736,653 +5.1%
13	Baltimore	786,741 (10)	720,100 -8.5%
14	San Francisco	678,974 (13)	711,407 +4.8%
15	Jacksonville, Fla.	540,920 (22)	659,420 +21.9%
16	Columbus, Ohio	565,032 (19)	622,466 +10.2%
17	Milwaukee	636,298 (16)	620,470 -2.5%
18	Memphis	646,170 (14)	603,732 -6.6%
19	Washington	638,432 (15)	574,844 -9.9%
20	Boston	562,994 (20)	553,712 -1.6%
21	Seattle	493,846 (23)	512,094 +3.7%
22	Nashville	455,651 (25)	504,988 +10.8%
23	El Paso	425,259 (28)	504,412 +18.6%
24	Cleveland	573,822 (18)	500,526 -12.8%
25	New Orleans	557,927 (21)	487,953 -12.5%
26	Austin, Texas	345,890 (42)	461,046 +33.3%
27	Denver	492,694 (24)	460,414 -6.6%
28	Fort Worth	385,164 (33)	443,102 +15.0%
29	Oklahoma City	404,014 (31)	441,154 +9.2%
30	Portland, Ore.	368,146 (35)	433,666 +17.8%
31	Kansas City, Mo.	448,028 (27)	427,799 -4.5%
32	Long Beach, Calif.	361,496 (37)	423,394 +17.1%
33	Tucson, Ariz.	330,537 (45)	402,506 +21.8%
34	St. Louis	452,804 (26)	393,109 -13.2%
35	Charlotte, N.C.	315,474 (47)	389,000 +23.3%
36	Virginia Beach, Va.	262,199 (56)	388,737 +48.3%
37	Atlanta	425,022 (29)	384,153 -9.6%
38	Albuquerque	332,336 (44)	381,643 +14.8%
39	Honolulu	367,878 (36)	376,110 +2.2%
40	Minneapolis	370,951 (34)	366,166 -1.3%
41	Sacramento	275,741 (52)	364,663 +32.3%
42	Tulsa	360,919 (38)	364,572 +1.0%
43	Pittsburgh	423,960 (30)	364,379 -14.1%
44	Oakland, Calif.	339,337 (43)	360,855 +6.3%
45	Cincinnati	385,410 (32)	353,232 -8.3%
46	Miami	346,681 (41)	352,492 +1.7%
47	Fresno, Calif.	217,491 (65)	350,794 +61.3%
48	Omaha	314,255 (48)	332,739 +5.9%
49	Toledo, Ohio	354,635 (40)	330,000 -6.9%
50	Buffalo	357,870 (39)	323,857 -9.5%

1 - 1988 est.

DECADE'S TOP 10, BOTTOM 10

State	Most	State	Least
Nevada	49.1%	West Virginia	-8.6%
Alaska	35.8%	Iowa	-5%
Arizona	33.2%	Wyoming	-4.2%
Florida	31.1%	North Dakota	-2.9%
California	23.7%	Illinois	-0.9%
New Hampshire	19.8%	Michigan	-0.9%
Texas	18.3%	Pennsylvania	-0.8%
Utah	17.1%	Louisiana	-0.6%
Georgia	16.9%	Ohio	-0.2%
Washington	16.8%	Kentucky	+0.1%