

Approved 4-29-91
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

8:30 a.m./~~p.m.~~ on April 24, 1991 in room 254-E of the Capitol.

All members were present ~~except~~:

Committee staff present:

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

Conferees appearing before the committee:

Stan Chilton, Chilton Vending Company, Wichita, Kansas
Pat Hurley, G-Tech Corporation
Sam Giaimo, G-Tech Kansas Lottery Office
Carl Anderson, Assistant Attorney General, Kansas Lottery

Hearing on: SB 449 - Operation of video lottery machine games
by the Kansas lottery.

The chairman said the balloon distributed yesterday was a combination of other states' law in an effort to recognize video lottery.

There was concern about the amount the state might expect after revenues level off. Stan Chilton, Chilton Vending Company, displayed graphs showing steady increases so far in South Dakota and Montana. Montana initially set machines, then went back and added second and third machines in the various locations. Mr. Chilton believes the mature market in Kansas will be about 25,000 machines.

Pat Hurley, G-Tech Corporation, said they are the largest lottery vendor in the world. They would like the opportunity to bid to provide these machines to the state. He said the key to the success of this measure is the security and integrity of the computer program. He expressed several concerns: 1) There are no major lottery vendors in the state; G-Tech would be prohibited from bidding by the residency language; 2) The four-tier system would limit G-Tech and existing lottery vendors; 3) This language would not require machines to be in constant communication with computer; the reason lotteries are now successful is the absolute integrity of the central computer; 4) Regarding the split, currently 74-75% would not go to state; G-Tech would bid so the state's share would be about 45%.

Sam Giaimo, Director, G-Tech Kansas Lottery Office, said that although G-Tech does not have any video lottery machines at this time, they have a license to manufacture and think the state would be best served by their lottery experience.

Mr. Hurley said the state wants to get into this quickly; they could get as many machines as desired immediately with absolute security and maximum return to the state. If other machines are compatible, they could be hooked up to the central computer. He suggested using two pilot systems and comparing the net to the state. Other companies who are involved in lottery could bid. (Attachment)

Stan Chilton said the South Dakota bill was written to cover both the lottery and VLT; they have nine manufacturers. He said many small businesses would go bankrupt if they can't manufacture these machines.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Federal and State Affairs,
room 254-E, Statehouse, at 8:30 a.m./~~p.m.~~ on April 24, 1991.

A motion was made by Senator Bond and seconded by Senator Morris that revenue received from video lottery be distributed to K-12 education on a per pupil basis.

It would not go into the school finance formula and would be supplemental to state aid, rather than state aid being reduced proportionately.

A substitute motion was made by Senator Walker that 100% of the revenue be distributed through the school finance formula. There was no second.

The original motion carried.

Concern was expressed about the residency requirement, that operators should go through background checks. Stan Chilton said that in other states anybody having more than 10% ownership in a corporation goes through the residency requirement and background check.

A motion was made by Senator Yost and seconded by Senator Morris that the operator and distributor residency requirements be similar to the liquor residency requirement in the state. The motion carried.

A motion was made by Senator Bond and seconded by Senator Morris that the machines be placed in CMB and liquor establishments. The motion carried.

Carl Anderson, Kansas Lottery, said an establishment could purchase a liquor license in order to have video lottery machines without selling liquor.

A motion was made by Senator Walker and seconded by Senator McClure that the state receive 30% of the net proceeds.

A substitute motion was made by Senator Bond and seconded by Senator Morris that the language read "not less than 25%" and that any conflicting language be removed. The motion carried.

Carl Anderson suggested language to cover gray machines: "No person may have in his possession, custody, or under his control or permit to be kept in any place under his possession or control, any device that awards credits and contains a circuit, meter or switch capable of removing and recording the removal of credits when the award of credits is dependent upon chance." He said it might need to be plugged into existing criminal statute.

A motion was made by Senator Bond and seconded by Senator Strick to adopt the enforcement language. The motion carried.

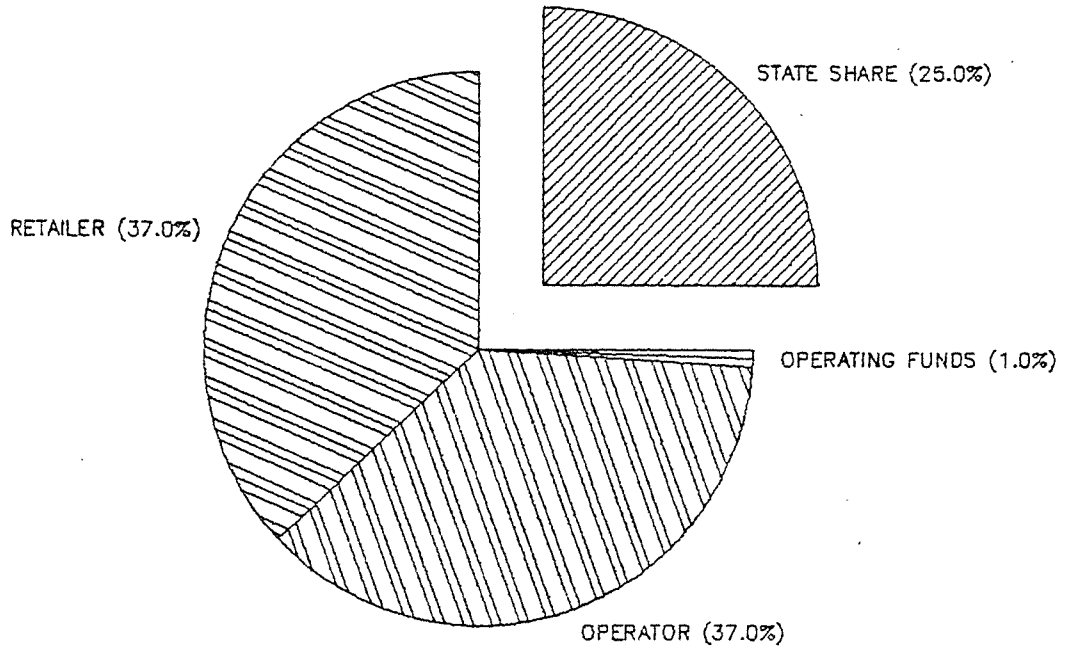
Staff mentioned areas of cleanup needed: 1) Qualifications for manufacturers, operators, and distributors be compatible to lottery retailer qualifications; and, 2) Require contracts and issuance of certificates by lottery to manufacturers and distributors, as well as operators.

A motion was made by Senator Morris and seconded by Senator Strick that these changes be made. The motion carried.

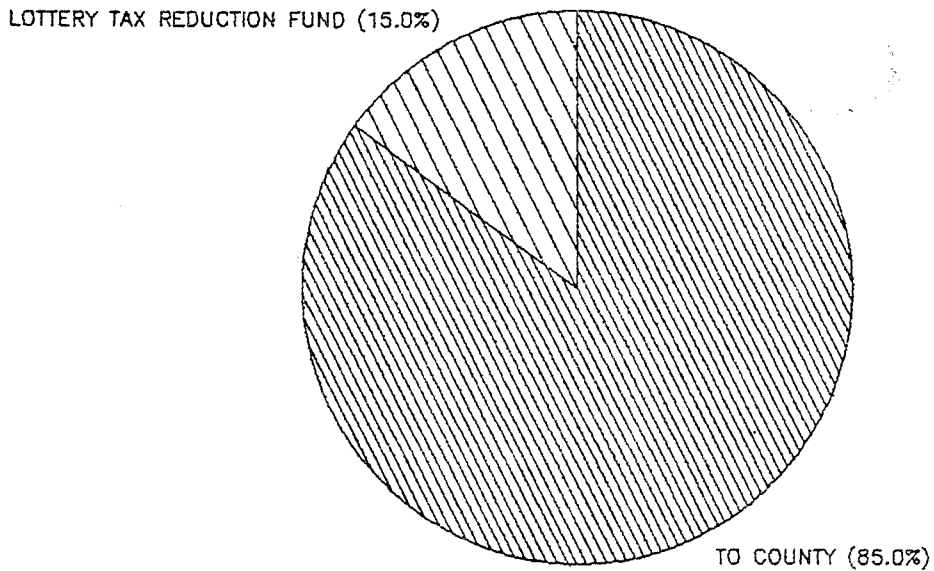
A motion was made by Senator Strick and seconded by Senator Yost to recommend the bill favorably as amended. The motion carried.

The meeting was adjourned at 9:40 a.m.

KANSAS STATE LOTTERY: DISPOSITION OF
NET VIDEO LOTTERY MACHINE INCOME



KANSAS STATE LOTTERY: DISPOSITION OF
STATES SHARE (25%)



Senate F&SA
4-24-91
Att. 1