

MINUTES OF THE JOINT COMMITTEE ON HOUSE AND SENATE FEDERAL AND STATE AFFAIRS

The meeting was called to order by Senator Edward Reilly at \_\_\_\_\_  
Chairperson

1:00 a.m./p.m. on Tuesday, January 28, 1992 in room 313-s of the Capitol.

All members were present except:

Committee staff present:

Mary Torrence, Office of the Revisor of Statutes  
Lynne Holt, Kansas Legislative Research Department  
Mary Galligan, Kansas Legislative Research Department  
Connie Craig, House Committee Secretary

Conferees appearing before the committee:

Ralph Decker, Executive Director, Kansas Lottery

Senator Reilly, Chairman, began the meeting by turning the Committee's attention to the video lottery machine in the room. He invited members of the Committee to view the machine up close.

One Committee member asked Ralph Decker, Executive Director, Kansas Lottery, when the Legislature will have a bill on video lottery? Mr. Decker replied sometime soon.

Senator Reilly asked Mr. Decker to comment on meterized type systems versus on-line type systems, and also on the cost of the two systems. Mr. Decker explained the two different systems and costs, Attachment #1.

Questions from Committee members:

- What is the Lottery contention as far as location? Will they be in liquor stores, convenience stores, or where? Mr. Decker stated that the bill, as it sits right now, includes all the places mentioned. Mr. Decker added that the rough draft of the bill designates 10 machines per location with one exception, the horsetrack is allowed an unlimited amount of machines.
- Who will own the machines? Mr. Decker replied that the operators will be the owners of the machines.
- An operator is defined as who? Mr. Decker replied that an operator is the person who puts the machines in retail establishments, such as they do with amusement machines. He added that the retailer is listed as the establishment where the machines would go. Then you will have a manufacturer, and the vendor runs the central sight system at the Lottery headquarters.
- Will operators be required to have a certain number of machines before they can qualify as an operator. Mr. Decker stated an operator can own any number of machines.
- Explain "spill over" from Missouri of one million people. Is that 100,000 people playing ten times? Staff explained that the numbers are not to be taken scientifically, but this was derived from the 1990 population of Missouri border counties.
- How hard is it to maximise both security and revenue? Mr. Decker replied that both on-line and dial-up systems are secure.
- In regard to the 6,000 or 7,000 gray machines, will owners be able to use these machines after legislation is passed? Mr. Decker stated that these machines will not be compatible to the State's machines because they have to have a computer devise in them, and it is very difficult and expensive to make the old machines compatible.
- Have any states agreed to purchase back old machines to offset the loss by the owner once video lottery legislation is passed. Mr. Decker answered he did not know of any states that do tha.
- Are odds calculated on a per machine basis or is it a combination of machines throughout the state? Mr. Decker explained that you set the percentages, these are constantly reviewed, and it doesn't have to be statewide, it can be location or city-wide.
- Staff indicated that when a machine is played more, the returns to a player increase? Mr. Decker stated that an 80% payback is what the total payback overall on the machine, but it doesn't necessarily mean what every person is going to win.

CONTINUATION SHEET

MINUTES OF THE Joint COMMITTEE ON HOUSE AND SENATE FEDERAL AND STATE AFFAIRS

room 313-S, Statehouse, at 1:00 ~~xxx~~/p.m. on Tuesday, January 28, 1992.

- Will the Indian casino's have video lottery machines? Mr. Decker replied yes, the Indian Gaming Compact will allow video lottery machines, and the State will have no control over these machines.
- What is the breakdown of the percentages that operators and retailers will receive? Mr. Decker stated the Legislature will have to address the issue as time goes on. But after looking at some of the other states, the draft of the bill says 30% to the State, 40% to the operators, and 30% to the retailers for the first year. He explained the operators receive a higher percentage the first year to give them the opportunity to recoup some of their investment in the machines. The second year, the State and the operator percentages switch. Mr. Decker turned the Committee's attention to page 5 of Attachment #1 for three different breakdowns of estimated revenues.
- With the option of an on-line or dial-up system, will all machines be one type or the other, and not a mix of the two systems? Mr. Decker answered all machines will be one type because of the expense and other considerations make it difficult to change system types once a choice has been implemented.
- Could Indian casinos choose to have their video lottery machines on the State's system? Mr. Decker answered yes.
- One of the tenets of the compact is a voluntary agreement that the criminal laws of the State of Kansas will apply on Reservation, and the State can go ahead and charge for policing of those laws, is that correct? Mr. Decker replied yes.
- If we were to legalize video lottery and set up an on-line system as part of that legalized lottery, would that not then carry over to that kind of policing of video lottery on the Reservation? If policing becomes the law of the State, in terms of the security element, if the agreement is that the laws of the State will apply to gaming on the Reservation, why would that exclude video lottery? Mr. Decker stated the laws that apply to the Indian Reservation are the laws of the United States, not the laws of Kansas.
- It was thought that the criminal laws of the the State of Kansas would voluntarily be accepted by the Kickapoo Nation, and not only would these be accepted, but we can charge the Nation for policing and upholding those laws? Mr. Decker answered according to his understanding, the Compact says laws of the United States, though, there was a question of whether it was going to say "and the tribe, and the laws of Kansas", but then it was backed off and stopped at the period after "the United States."

A member of the Committee asked that this be looked into, because if it did say the laws of the State, it would seem to apply to regulation of video lottery on the Reservation.

- How many machines does the Lottery expect to start the first year? Mr. Decker stated 6,400 machines.
- Will operators be able to recoup all their investment in the first year? Mr. Decker answered it depends on the price paid for the machine. If they paid from \$5,000 to \$6,000 per machine, they should be able to recoup that investment.
- Is it customary for other states to allow operators to recoup double that cost from year one? Mr. Decker stated this is acceptable because the initial investment for the operator is so great due to the machines they have out there at present will have to be disposed of. Mr. Decker added that the Legislature will have to decide how much the operator will get the first year, but the double recoup is an industry-wide recommendation.
- Attachment #1 has the projected revenue at \$180 million, what is the revenue for the Lottery now? Mr. Decker answered the Lottery revenue right now is \$21 million.
- Why is the revenue from video lottery higher than scratch off cards? Mr. Decker felt that video lottery has a higher draw to people because of the instant gratification and a better return.

Mr. Decker explained the information to base projections comes from what is happening in the other states and Canada. The Director of South Dakota felt that because Kansas has 3½ times more population than South Dakota, Kansas' economy is better, and the industry is not so new that our projections are low.

- As far as the installation costs and the operators' share, are all those things decided by the Committee and the Legislature? Mr. Decker answered that would be one option, and another option would be to have the Lottery put in a RFB (request for bid) to get the best deal for the State.

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- Is an operator going to be required to get a state license, as a result of a background check, and will that be built into the bill. Mr. Decker stated that there will be certain fees that are set up to get the license.
- Will there be a limit on the number of licenses granted, or bonding required? Mr. Decker replied no to a limit and bond, but there will be a license fee for the vendor and the operator. Those fees will come to the State.
- Will the State's share of revenues from video lottery go directly into the General Fund? Mr. Decker answered under the current proposal, there is no dedication of funds.
- If the Legislature chooses the dial-up system, are we precluding areas of the State whose phone companies have out-dated equipment, and if so, how much of the State loses out. Mr. Decker said the intent is not to preclude anybody, but if the phone company tells us that there are certain areas that we just can't go into, we can use RFB's to cover that possibility.
- In response to a question, Mr. Decker stated that the Lottery would choose that the State would not be the owner of these machines, which is similar to the on-line system that we have now.
- One Committee member expressed concern about where dollars end up, and who are the manufacturers and where are they located? Mr. Decker stated that they are located throughout the country.
- How do we keep the money involved in making, buying, and operating these video lottery machines in Kansas? Mr. Decker replied that you have to buy the machines from a manufacturer, no matter where they are located, but you could require operators to be residents of Kansas.
- Does South Dakota have a limitation in their law that retailers and/or operators must be residents of that state? Mr. Decker was not aware of anything in South Dakota's law that required state residency.
- Do the anticipated revenues from video lottery reflect the drop off from other games? Mr. Decker stated that figures in Attachment #1 do not reflect drop off revenue from other games.
- If there is strict enforcement of gray area machines, right now, and we were to eliminate the competition from that segment of gaming for the wagering dollars, would there be any projected increases to our existing lottery games? Mr. Decker replied he would like to think so, but could not say for sure.

In response to questions, one Committee member asked for an update on sting operations in Wyandotte County and other counties.

- Is it conceivable, in spite of whatever the Legislature does, the Indian Gaming Compact might be overturned by a court, and then the Indians would be able to have video lottery on every one of their properties? Mr. Decker answered yes.
- What input did the Lottery have in terms of the Compact? The Lottery has been named the State Gaming Official? Mr. Decker replied that he and the Lottery had the opportunity to go through the Compact, and the main item that I stressed was the security and the background checks.
- Are the actual expenses incurred by the State, and mentioned in the Compact, the use of the Kansas Bureau of Investigation. Mr. Decker replied that any expenses the State experiences will be billed on a monthly basis for the accountant's and the investigator's time.
- If the Indian Nation decides to have video lottery, will their paybacks to their players be dramatically higher than the State's because they will not have a share going to the State? Mr. Decker answered their payback may be a little higher because the company that they would license to be their operator would set it up along the lines of Las Vegas, for instance, with a 97% to 98% payback on the slots.

Chairman Reilly adjourned the meeting.

## DIAL-UP vs ON-LINE POLLING

### Dial-up

#### Advantages

1. In most areas of Kansas dial-up communications is significantly less expensive than on-line
2. Dial-up communications does not require a dedicated phone line, only a dedicated phone number, and would not take as long to setup or install

#### Disadvantages

1. Quality of data transmission - many areas of Kansas utilize rural phone companies whose outdated equipment cannot handle the higher range of standard baud rates in transmission
2. Error detection and correction will be less timely than on-line

### On-line

#### Advantages

1. Continuous polling - Error detection and correction will be immediate
2. Dedicated phone lines would probably have a higher quality of data transmission

#### Disadvantages

1. More hardware necessary for continuous polling - higher cost
2. Higher cost and increased time in establishing on-line network

*House Federal and State Affairs  
January 28, 1992  
Attachment #1*

# 1991: A look back

As I sit on this widebody jet traveling at 550 miles per hour toward Portland, Ore., for a meeting tomorrow, the lyrics from Harry Chapin's song "Cat's in the Cradle" come to mind:

*"My child arrived just the other day...came into the world in the usual way...but there were planes to catch and bills to pay...he learned to walk while I was away..."*

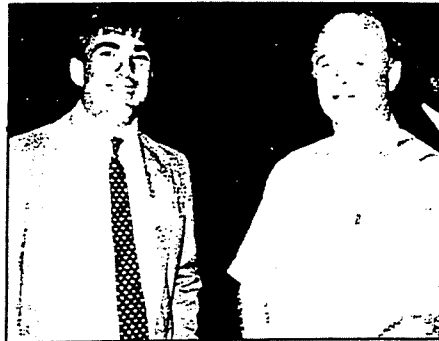
It is just now I realize it was a short nine months ago that my first child, Nicholas, was born. After staying home for several weeks, I once again took up the long, arduous road from capital to capital in search of legislators and industry members with a reasoned approach to video lottery, riverboat gambling, or Indian gaming. Now, nine months later, the issues in dispute in January remain today, with apparently no consensus or resolution.

## Security

Machine security is always my number one topic, since this is the primary function of the independent laboratory. Having thought that we put this issue to bed in the spring with my articles in *Play Meter*, I was very disappointed when it surfaced several weeks ago while I was attending a hearing in Vermont. It seems that certain authorities there attempted an ambush with an undocumented videotape from God knows where.

In this video tape (authors

unknown), video lottery is referred to as "video morphine" and assertions are made that the machines are not secure and can be easily cheated. This, of course, is total nonsense. Those who believe it should back it up with *engineering and technical data*, not just emotional assertions from law enforcement personnel.



At InterGam '91 in Atlantic City, James Maida (l) talks with Gary Jackson of British Columbia.

As I've said numerous times this year, video lottery terminals and systems are virtually impossible to cheat. Don't let anyone tell you differently. After all, would more than 7,000 machines be installed to date if the video lottery system was easily cheated?

For the record *again*, video lottery terminals are just as secure as slot machines in Las Vegas, Atlantic City, or any other casino gambling state. The addition of the central computer monitoring system adds a level of security which is not even required by the Nevada Gaming Board or the New Jersey

Casino Control Commission! I never hear opposition to gambling in casino gaming states based on security concerns related to the machines. But this misconception has found its way into the video lottery debate, and wrongly so.

## Central monitoring systems

Speaking of central monitoring systems, 1991 saw the introduction of on-line technology as it relates to video lottery central systems. Dial-up systems are still the workhorse in South Dakota, West Virginia, Western Canada, and Atlantic Canada.

While I believe that the choice between on-line and dial-up should be based on a cost/benefit analysis on a state-by-state basis, it is apparent that both systems give a satisfactory level of security and integrity to the video lottery infrastructure. Still, the debate goes on. (On-line requires communication every three to five seconds from terminal to central site; dial-up polls the machines at specified times.)

The hottest topic of the year, which is still completely unresolved, is the question of private vs. public sector involvement. In 1991 coin machine operators were included in Prince Edward Island and New Brunswick in Canada, while governmental units operated their own devices in Nova Scotia, Newfoundland, Western Canada, and Manitoba. Louisiana passed a video poker bill this year

that allows for operator participation; Oregon is still undecided at this writing.

The media came to the laboratory in 1991. Most notably, WOR-TV from New York attempted an investigative report on video lottery. After seeing a video lottery machine and system demonstration, they still couldn't believe the machines were uncheatable. Little footage from the lab was used. Instead, gray machines from the 1970s (located in Patterson, N.J.) appeared in the story, leaving the impression that these were video lottery devices. If the media could only take a few minutes to educate itself on this subject, the fate of video lottery would be enhanced greatly.

## Technology

Technology in 1991 also progressed more rapidly than any other year since the mid-1980s. Touch-screen models emerged as the norm. Almost every manufacturer has introduced a touch-screen model or is in the final stages of working on touch-screen technology. Debate has erupted over which is better. Again, there are no hard and fast answers. In some cities touch-screen units are preferred; in others the local clientele like button controls. One thing is clear: manufacturers must continue to offer both models to make consumers happy.

Hardware platforms (microprocessors, etc.) are rapidly changing. This year alone the laboratory evaluated more than 10 hardware platform changes in existing manufacturer products. The switch seems to be to the PC-based platform where video lottery terminals are being driven by the same hardware that drives my laptop computer.

Since video lottery machines require serial communication of some sort, and VGA-equivalent graphics are being required by certain purchasers, the logical choice

seems to be PC-based designs. Changes in 1991 have led to 16-bit technology. We at the lab have seen more Intel 80188 and 80286 than ever before. Motorola 68000 processors are also becoming popular.

Also in 1991, the laboratory staff saw the manufacturing playing field expand greatly. More than 20 new manufacturers contacted us this year in hopes of supplying their goods to the video lottery arena, as well as casino markets and Indian compacts.

Group games have become more popular, for example: electronic poker tables, electronic video blackjack tables, and horse racing machines. I saw my first horse racing game just six years ago and a few weeks ago I saw the newest—the horses don't travel on tracks, they can switch lanes!

Machine manufacturers are no longer confined to the United States. More than a half dozen have contacted us for approvals in Europe, Australia, and the Far East. Central system vendors, both for video lottery and casinos, are more numerous. On-line casino accounting systems can be shared between casinos, even those 50 miles apart. Progressive jackpot systems for the casino market have come of age. Mini-computers can now be used to hook progressive machines within a casino, or the network can be expanded to nationwide coverage. There are no boundaries in this age of technology.

In order to absorb all of this information, there have been more conferences this year than I can remember: the Indian Gaming Conference, Lottery Expo and NASPL, NAGRA Conferences, InterGam '91, and the World Gaming Expo. Panelists have been excellent, always controversial, and informative.

## The future

Where do we go from here? The

laboratory staff doubled this year and we expect it to double again next year. I know the air travel will not cease. The Manitoba Lottery Foundation started its video lottery in November and Illinois added more riverboats. Oregon is slated to begin video lottery in early 1992 and Louisiana begins legal video poker in spring or mid-1992.

The same issues will be debated in 1992 that were debated in 1991. The difference, I hope, will be that some things become non-issues. The most important of these is the security aspect of video lottery terminals. **THEY ARE VIRTUALLY IMPOSSIBLE TO CHEAT.** If anyone thinks he can "hack" his way into the system, think again. Even if entry was managed (virtually impossible), no data could be changed!

The long-standing disagreement between whether operators should participate or the state should become the operator will continue. Video lottery will be tested in 1992. With the advent of on-line video lottery systems will come discussion of progressive jackpots on a statewide system. Riverboat gambling and Indian gaming may either be the catalyst for the expansion of video lottery or an impediment.

It's about time to land in Portland. A long drive to Salem, Ore., is next, followed by the video lottery debate tomorrow. The same issues and concerns will be discussed, just in a different city. As I conclude this year in review, the words of Chapin's "Cat's in the Cradle" come back to me:

*"...and the cat's in the cradle with a silver spoon...my little boy is a man...when 'ya comin' home Dad, I don't know when, but we'll get together then, yeah, I know we'll have a good time then."*

To the industry: thank you all for your support. To my family: thanks for the love and understanding during this year of change and travel. □

HSPF  
1-28-92  
1-3

COST ANALYSIS OF INSTALLING AND  
MAINTAINING VIDEO LOTTERY SYSTEM

ONLINE		DIAL-UP
1,500,000	Central Site Computer System	1,500,000
1,920,000	Line/Trunk Installations	50,240
----- 3,420,000	Total Installation Costs	----- 1,550,240
120,000	Fixed Monthly Charges	24,872
0	Monthly Toll Charges	20,000
----- 120,000	Total Monthly Charges	----- 44,872

Cost estimates are based on:

- 1) 6,400 VLTs from start up
- 2) \$300 average cost to install each dedicated line
- 3) Ability to use at least one-half of existing business lines for dial-up
- 4) Toll Charges of \$.32 per VLT per month (which is slightly higher than South Dakota's cost of \$.25)  
(Based on estimates from DISC)

*House F35A  
1-28-92  
1-4*

Kansas Video Lottery Revenue Estimates

	Prop 1		Prop 2		Prop 3	
Projected Annual Net Revenue	180,438,414		180,438,414		180,438,414	
State Share	54,131,524	30%	72,175,366	40%	99,241,128	55%
Operators Share	72,175,366	40%	54,131,524	30%	54,131,524	30%
Retailers Share	54,131,524	30%	54,131,524	30%	27,065,762	15%

House FSA  
1-28-92  
1-5



## EXECUTIVE SUMMARY

This report presents the findings of a state-wide survey of gambling involvement and gambling problems in South Dakota. A large sample of adult residents over the age of 18 (N=1,560) were interviewed about the types of gambling they have tried, the amounts of money they spend on gambling, and about problematic gambling-related behaviors. The results of the survey have been compared with the results of similar surveys carried out in other states.

### **Findings**

- ▶ The lifetime prevalence rate of problem gambling in South Dakota is 1.8% and the lifetime prevalence rate of pathological gambling is 1.0% of the adult population. Based on these figures, we estimate that between 5,620 and 12,290 adult residents of South Dakota have been problem gamblers at some time in their lives. In addition, we estimate that between 2,490 and 7,460 adult residents of South Dakota have been pathological gamblers at some time in their lives.
- ▶ The current prevalence rate of problem gambling in South Dakota is 0.8% and the current prevalence rate of pathological gambling is 0.6% of the adult population. Based on these figures, we estimate that between 3,980 and 9,900 adult residents of South Dakota are currently problem or pathological gamblers.
- ▶ The lifetime prevalence rates of problem and pathological gambling in South Dakota are lower than prevalence rates in the Northeast of the United States but higher than in Iowa and Minnesota.
- ▶ The percentage of problem and pathological gamblers who are women is higher in South Dakota than in other states.
- ▶ Residents of South Dakota are most likely to have tried the types of gambling administered by the State, including Scratch & Match games, Lotto and video lottery.
- ▶ The greatest monthly expenditures on gambling are for video lottery and slot machines. The highest amounts wagered on a monthly basis are on card games, slot machines and video lottery.

### **Future Directions**

In the future, it will be important to consider what steps can be taken by state agencies, mental health and substance abuse treatment professionals, educators and gaming industries to minimize the rates of problem and pathological gambling in South Dakota. Particular consideration should be given to developing prevention, education and treatment services.