

Approved 3-16-92
Date

MINUTES OF THE HOUSE COMMITTEE ON FEDERAL AND STATE AFFAIRS

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

1:30 ~~am~~ /p.m. on Thursday, March 5, 1992 in room 526-S of the Capitol.

All members were present except:

Representative James Cates - Excused
Representative Joan Wagnon - Excused
Representative Rand Rock - Excused

Committee staff present:

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

Conferees appearing before the committee:

Brandon L. Myers, Chief Legal Counsel, The Kansas Human Rights Commission
Martha Gabehart, Kansas Department of Human Resources
Representative Tom Thompson, 24th District, State of Kansas
Ralph Decker, Executive Director, Kansas Lottery
Paul Louderman, Kansas Lottery
John Bottenberg, Video Lottery Consultants, Inc.
Laura E. Nicholl, Secretary, Kansas Department of Commerce
William T. Terrell, Associate Professor of Economics, Wichita State University, Kansas
Jim Edwards, Director of Chamber and Association Relations, Kansas Chamber of Commerce and Industry
Charlene Wilson, Director of Communications, Kansas Area United Methodist Church

Chairman Sebelius opened the meeting.

HB 3164

The first conferee to testify was proponent Brandon L. Myers, Chief Legal Counsel, Attachment #1.

In response to Committee questions, Mr. Myers affirmed that there was no objection to changing "January 1, 1992" to a later date so that violations would not be backdated. He stated that the change on page 4, line 28 from 90% to 80% was made so that the bill would conform to the federal act.

Other Committee questions were: is it necessary to have the same financial penalties that the federal law has; will you be administering federal laws; and can an individual file a lawsuit under both federal and state laws?

Martha Gabehart appeared as a proponent of HB 3164, Attachment #2.

HB 2875

Representative Tom Thompson, Attachment #3, appeared as a proponent of HB 2875.

Questions from the Committee are as follows:

- How will this be enforced if children are still allowed to attend sporting events where the Kansas Lottery films promotionals which might include a crowd where children are present?
- Would the bill be interpreted as meaning that there could be no Lottery advertising at all because a child might see them? (Representative Thompson clarified saying that its intent was to keep children out of gambling promotions.)
- Is the intent of this bill to prohibit using children as part of an ad campaign?

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON FEDERAL AND STATE AFFAIRS,

room 526-S Statehouse, at 1:30 ~~xxm~~/p.m. on Thursday, March 5, 1992

It was suggested the words used in the bill, "engage" and "involve" (page 2 line 27), were problematic; and instead "prohibit producing" would better express the intent.

Ralph Decker, Executive Director, Kansas Lottery, testified in opposition, Attachment #4. He introduced Ralph Louderman, in charge of Kansas Lottery advertising, to show the only commercial out of a total of forty commercials that focused primarily on a child.

Representative Charlton called point of order, and pointed out the written testimony, Attachment #4, included the description of past advertisements using children, and the Committee is running out of time, nor did she want to see the commercial. Chairman Sebelius ruled the commercial is relevant, and should be viewed.

One Committee member asked what is the economic impact to the Lottery if the bill is passed, and is advertisement of this type used to promote goodwill to increase lottery sales

Written testimony in opposition to HB 2875, Attachment #5, was submitted by Harriet Lange, Executive Director of the Kansas Association of Broadcasters, who was unable to appear in person.

HB 3085

Chairman Sebelius informed the Committee that HB 3085 had been "double referred" to the House Committee on Governmental Organization, which had reported the bill favorably.

Ralph Decker appeared before the Committee as a proponent of HB 3085, Attachment #6.

The Committee asked Mr. Decker to bring the gross sales figures and administrative cost figures. Mr. Decker referred the Committee to the Annual Financial Compliance Audit, which is independently contracted, but available through Legislative Post Audit.

Other Committee questions are as follows:

- Are the projected transfers to the State for FY92 approximately \$23 million?
- What are the effects of the instant pull-tab bingo to the Lottery?
- Would either of the two constitutional amendments, one offered in the Senate and one in the House, to redefine the "lottery", limit the Lottery, as we know it now?
- Does the state still get thirty cents out of every dollar no matter whether it is Lotto America, Cash Lotto, or any instant game?
- A final question from a Committee member was regarding the loss to the Lottery if it were to collect on daily sweeps.
- One Committee member pointed out that Mr. Decker had testified that he was involved with the negotiations of the original contract relative to the Indians. The Committee member asked Mr. Decker if there were any prohibitions in the second contract that with the Indians not to run a lottery? Mr. Decker announced that he was not involved in the negotiations of the second contract.
- Were there any prohibitions in the first contract regarding the Indians having a lottery? Mr. Decker stated that there were prohibitions on this, and on wagering on high school sports. Mr. Decker also recommended that this be put down in writing, and should be an amendment.

John Bottenberg appeared before the Committee as a proponent to HB 3085, and also recommended including video lottery, Attachment #7.

Committee members raised questions regarding the "gray machines", and the motivation of those presently operating illegally to conform to laws.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON FEDERAL AND STATE AFFAIRS,

room 526-S Statehouse, at 1:30 ~~xxx~~/p.m. on Thursday, March 5, 1992.

Laura Nicholl, Secretary, Kansas Department of Commerce, testified in favor of HB 3085, Attachment #8.

Dr. William Terrell, Associate Professor of Economics, Wichita State University, informed the Committee of the possible benefits of a video lottery in Kansas based on his research of the video lottery in South Dakota, Attachment #9. Chairman Sebelius asked Dr. Terrell if he was aware that HB 3085 dealt with sunseting the Lottery, and if so, what the relevance of his testimony was to the bill.

Jim Edwards, Kansas Chamber of Commerce and Industry, urged the Committee to support HB 3085, Attachment #10.

Dr. William Brundage, K-Tech, was unavailable to testify in person in favor of HB 3085, but submitted written testimony, Attachment #11.

Charlene Wilson, Director of Communications, Kansas Area United Methodist Church, appeared as the only opponent to HB 3085, Attachment #12. She responded to Committee questions that the Methodist Church's opposition to the Lottery is primarily moral, and its objection is to both to the act of gambling and to the possible addiction resulting from gambling.

Representative Empson moved that the minutes from March 4, 1992, be approved. Representative Gjerstad made a second to the motion, which passed on a voice vote.

Chair Sebelius announced that she had a request from the Public Health and Welfare Committee to introduce a bill they had tried to introduce, but missed their deadline. She explained that this Committee would not get the bill, but it would go back to Public Health and Welfare; and would like a motion to introduce the bill.

Representative Douville moved to introduce the motorcycle helmet bill, to be referred to Public Health and Welfare. Representative Edlund made a second to the motion, which passed on a voice vote.

Chairman Sebelius adjourned the meeting.

GUEST LIST

DATE 3-5-92

(PLEASE PRINT)

NAME	ADDRESS	WHO YOU REPRESENT
Brandon Myers	851 S Landon Sr. Office Bldg	Ks. Highway Restrict Comm
Marta Gabehar	1430 S. Topoka	KCDC
Sharon Huffman	"	"
Charlene Wilson	4201 SW 15th, Topoka	United Methodist Ch. of Ks.
John Roberts	Topoka	Kansas Lottery
Ralph Decker	Topoka	Kansas Lottery
Derieth L. Sutton	Topoka	Kansas Lottery
Paul Landrum	Topoka	Kansas Lottery
Robert G. Lay	851 S Landon Bldg	Kan Hum Regl Comm
Jim Edwards	Topoka	KCCIT
R. Lipsey	Topoka	AP
ROBERT BARCOCK	ALEXANDRIA, VA	VCC
JOHN C. BOTTENBERG	TOPEKA	VCC
Russell A. Frey	Topoka	Ks Vet Med Assoc
Bob Williams	Sioux Falls SD.	WFO INSISTS
Ben McStabala	LAS VEGAS, NV	Universal Dist
Dan Harper	Topoka KS	Heartland Progress, Inc
Patrick Sherley	Topoka	McGraw Hill
P. Smith	Topoka	Mid-American Gaming Industries Corp.
Van ...	Topoka	Kansas Lottery

**TESTIMONY OF THE KANSAS HUMAN RIGHTS COMMISSION
BEFORE THE HOUSE FEDERAL AND STATE AFFAIRS COMMITTEE
HOUSE BILL NO. 3164
BRANDON L. MYERS, CHIEF LEGAL COUNSEL
MARCH 5, 1992**

H.B. 3164 was introduced by the House Federal and State Affairs Committee at the request of the Kansas Human Rights Commission (KHRC). The Commission has prepared a Fiscal Note as to House Bill 3164 and a copy is attached hereto.

SUMMARY

This bill proposes amendments to the housing discrimination sections of the Kansas Act Against Discrimination (KAAD), which is administered by the KHRC. House Bill No. 2541, which was passed by the Legislature last session, enacted changes to the KAAD housing sections by prohibiting discrimination in housing on the basis of disability or familial status. The amendments were based upon comparable changes in federal housing discrimination law stemming from the Federal Fair Housing Amendments Act of 1988. House Bill 3164 is intended to fine tune the KAAD to place it in substantial equivalency with the Federal Fair Housing Law as amended in 1988. House Bill 3164 also makes some certain typographical and technical corrections to provisions adopted in House Bill 2541.

*House Federal & State Affairs
March 5, 1992
Attachment #1*

BACKGROUND

The KAAD has traditionally been patterned upon, and in substantial conformity, with the comparable Federal Fair Housing Act. Kansas has thereby aligned itself with the same basic public policy of opposition to housing discrimination as is engrained within the Federal Fair Housing Law. Because of the substantially equivalent nature of the state and federal housing discrimination laws, the KHRC (formerly the Kansas Commission on Civil Rights) has been in a position to enter into contractual work-sharing agreements with the U. S. Department of Housing and Urban Development (HUD), which administers the Federal Fair Housing Act. Under the federal law, if HUD determines that a state agency administers a comparable state law, HUD may contract to pay that agency in order to utilize the state agency's investigation of complaints which may be asserted under both state and federal law. By contractually delineating each agency's duties, those wishing to complain of housing discrimination are efficiently assisted in coordinating the filing of complaints with both agencies, and the parties are the subject of only one investigation, which is then generally accepted by the other agency. Duplicitous investigative activities are minimized and the matters tend to be handled on a more localized basis. Since the KHRC must investigate complaints filed therewith, and the state must fund the agency for that purpose, the contractual payment from HUD for doing something

11-13-1
3/5/92
1-2

otherwise required by state law is fortuitous indeed. The KHRC currently is receiving approximately \$40,000 per year from HUD for this activity. It is anticipated that these funds will double to \$80,000 per year if HUD determines that the KHRC has amended our law to conform with the 1988 federal amendments.

Similarly, the KHRC qualifies for grants from HUD due to our similar laws. The grant funds we are currently receiving are approximately \$65,000 per year and are used for educational activities, equipment, educational materials, etc. (Last year the Commission's Education Specialist made presentations in each of the 105 counties in Kansas, largely due to the HUD funding of these activities).

For the last three previous legislative sessions, the KHRC has been attempting to adopt amendments to the KAAD which would place the KAAD in substantial conformity with existing federal laws. This was first attempted in House Bill 2084 for two sessions and then in House Bill 2541 last session. The 1988 federal amendments set a date of January 13, 1992, by which states with work-sharing contracts with HUD would have to have their laws in such conformity or else HUD would no longer be authorized to maintain these contracts. After analyzing our law as amended by House Bill 2541, HUD has indicated to KHRC that certain additional statutory amendments are necessary, while

certain, less significant, gaps between the two laws can be satisfactorily remedied by adoption of administrative regulations by KHRC. KHRC submitted proposed regulations and the proposed statutory changes (which are now comprised in House Bill 3164) to HUD and was granted an extension of time through September 13, 1992, in which to enact these regulations and statutory amendments. Based upon HUD's written comparison of Kansas and federal law and their past declaration of substantial conformity between federal law and the laws of other states (e.g., Texas and North Carolina) with comparable situations, we believe the adoption of the fine tuning amendments of House Bill 3164 will finally bring substantial conformity between Kansas and federal laws as required to maintain our HUD contracts. Our proposed housing regulations are already going through the adoption process. However, failure of the Legislature to pass House Bill 3164 this session will result in the loss of all KHRC funding from HUD (as set out above, approximately \$40,000 - \$145,000 per year). HUD cannot extend the time in which to conform the laws past September 13, 1992 (the federal statute sets this date as the final extension deadline). It is therefore urgent that House Bill 3164 be adopted this session.

WF 3/5/92
1-4

ANALYSIS

1. Section 1 (page 2 of bill): K.S.A. 44-1016 (h)(3)(C): Changes from July 1, 1991, to January 1, 1992 when accessibility requirements go into effect in regards to new construction and design of housing covered by the Act.

Rationale for change: H.B. 2541's change to the housing section of the KAAD did not become effective until January 1, 1992 (K.S.A. 1991 Supp. 44-1015, et. seq.). The July 1, 1991, compliance date above is clearly an error which unintentionally puts this subsection out of sync with all the other relevant sections of H.B. 2541.

2. Section 2 (page 4 of bill): K.S.A. 44-1018 (l)(2)(A): Changes from "90%" to "80%" the threshold level of occupancy by at least one person per unit of age 55 or older to qualify a housing community as "housing for older persons" exempt from the prohibition against discrimination on the basis of familial status.

Rationale: This provision was intended to mirror the comparable federal law provision contained at 42 USC 3607(2)(c)(ii) which is 80%. This merely corrects a typographical error.

HF 95A
3/5/92
1-5

3. Section 3 (page 5 of bill): K.S.A. 44-1019(b): Corrects a typographical error by changing the word "forms" to "forums".

Rationale: An aggrieved person and other parties have choices under the law with regard to federal versus state and court versus administrative hearing "forums". This is what was intended to be referred to here - not "forms".

4. Section 3 (pages 7 - 8 of bill): K.S.A. 44-1019 (h) - (k): This allows a party, after the Commission has investigated and determined that probable cause exists for crediting the allegations of a complaint, to elect to have a civil action commenced in state district court as an alternative to the KHRC public hearing process. The provision requires that the KHRC commence such civil action. If this "opt-out" to court is elected, the KHRC is required to commence such civil action. In the District Court proceeding, the KHRC legal staff would present the case in support of the complaint in the same manner as if the case were presented at a KHRC public hearing.

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3/5/70
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K.S.A. 44-1019(i) proposes that if a party does not opt-out to court and the matter proceeds to public hearing, actual damages, including those for pain, suffering and humiliation, may be awarded by the KHRC to the extent such damages are supported by the evidence. Also, this change allows the imposition of civil penalties consistent with those which may be imposed in a HUD administrative hearing under the Federal Fair Housing Act at 42 USC 3612 (g)(3). Such civil penalties would be payable to the state general fund. These penalties increase where violations of the law are proven on a recurring basis.

Rationale: The purpose of these provisions is to assure that when discrimination is proven, aggrieved persons have remedies available at the state level comparable to those existing under federal law, and to insure that such person is not, in effect, penalized for proceeding through the state administrative process rather than another option. The civil penalties are meant to help assure that violations will not reoccur. The HUD analytical memorandum to KHRC indicates that adoption of House Bill 3164's court options provisions, which are comparable to the court options available under 42 USC 3612(a) provided by HUD, are crucial to a determination of substantial equivalency of these two laws, and the administrative hearing remedy changes will make the two laws comparable.

5. Section 4 (page 9 of bill): K.S.A. 44-1021 (d)(1): This change allows the commencement of a civil action by an aggrieved person within two years of the alleged discriminatory occurrence or the termination of a discriminatory practice. The amendment provides for the tolling of this limitation period while the administrative processing of a complaint is ongoing.

Rationale: K.S.A. 44-1021 (d)(1) as passed by H.B. 2541 allows a one year period for filing such a lawsuit, but does not provide for tolling of the limitation period while the complaint is going through KHRC administrative processing. This conflicts with the one year period for filing an administrative complaint with KHRC as authorized (pursuant also to H.B. 2541 changes) at K.S.A. 44-1019(a). These changes permit a person filing a KHRC complaint at the very end of the one year filing period to exhaust his or her administrative remedies with KHRC and yet be within time to file court action. Currently, Kansas appellate case law (Van Scoyck v St. Mary's Assumption Parochial School, 224 Kan. 304 (1978)) establishes a right to file such a court action after KHRC closes a case as "no probable cause", but the limitation period for such a filing has not been precedentially established. The two year limitation period and the tolling provisions are consistent with the Federal Fair Housing Amendments. (It should be noted that the KAAD specifically prohibits this type of court action if the parties have had a KHRC public hearing on their case.)

KFSA
3/5/92
1-8

ALYCE HAYES BROWN, Chairperson
TOPEKA

JOAN FINNEY, GOVERNOR
STATE OF KANSAS

MICHAEL J. BRUNGARDT
EXECUTIVE DIRECTOR

ROBERT G. LAY
ASSISTANT DIRECTOR

ARTHUR R. BRUCE
SUPERVISOR OF COMPLIANCE

WILLIAM V. MINNER
FIELD SUPERVISOR

LINDA L. AUWARTER
OFFICE MANAGER

FRANCIS ACRE
DOOGUE CITY
ROBERT WESLEY
INDEPENDENCE
CORBIN R. BENHAM
MULVANE



KANSAS HUMAN RIGHTS COMMISSION

LONDON STATE OFFICE BLDG.—8TH FLOOR
900 S.W. JACKSON ST.—SUITE 851 S.
TOPEKA, KANSAS 66612-1258
(913) 296-3208
TDD# (913) 296-0245

M E M O R A N D U M

TO: Gloria M. Timmer, Director of the Budget
FROM: Robert G. Lay, Assistant Director *RGL*
SUBJECT: Fiscal Note on House Bill No. 3164
DATE: March 4, 1992

In accordance with your request I have reviewed House Bill No. 3164. The purpose of H.B. 3164 is to amend existing Kansas law to bring it into conformity with the 1988 Federal Fair Housing amendments.

The major proposed amendments in this bill are directed toward the election of judicial alternatives and civil penalties. There are also several technical and typographical changes proposed that have no fiscal impact (An expanded analysis of these proposed changes is attached.).

If this bill is not passed there would be a significant fiscal impact on the agency, since we would lose the ability to contract with the U.S. Department of Housing and Urban Development (HUD) to process housing discrimination complaints for HUD and receive payment for such cases.

HF/SA
3/5/92
1-9

Gloria M. Timmer
March 4, 1992
Page 2

The Kansas Human Rights Commission has maintained a contractual relationship with HUD since 1981. This contractual relationship was possible because HUD had declared Kansas law, with regard to housing, to be substantially equivalent to the Federal Fair Housing law. Since the enactment of the 1988 Federal Fair Housing amendments, Kansas law is no longer considered substantially equivalent. The loss of the HUD contract would severely impact agency funding, since this contract is a major source of agency funding. For example, the 1990-91 HUD contract was for \$94,250, which included approximately \$40,000 for case investigations and a \$55,000 grant. The 1991-92 contract is for \$96,200, which includes a \$65,000 grant. It is estimated that future contracts could reach \$100,000 to \$145,000 annually. If funds are lost due to our inability to contract with HUD, the funds would likely have to be replaced by State General funds, if the agency is to continue the present level of operation. It should be understood, however, that even if the agency lost its HUD contract, we would still have essentially the same number of complaints to investigate, except we would not be paid for those services.

If you need additional information, please contact me.

RGL:la
Enc.

HF 30A
3/5/92
1-10



Kansas Department of Human Resources

Joan Finney, Governor
Joe Dick, Secretary

Commission on Disability Concerns

1430 S.W. Topeka Boulevard, Topeka, Kansas 66612-1877
913-296-1722 (Voice) -- 913-296-5044 (TDD)
913-296-4065 (Fax)

Testimony on HB 3164

by the

Kansas Commission on Disability Concerns

March 5, 1992

The Kansas Commission on Disability Concerns (KCDC) appreciates the opportunity to testify in favor of House Bill 3164. HB 3164 will amend the Kansas Act Against Discrimination (KAAD) to make it comparable to the Federal Fair Housing Amendments Act (FHAA).

Currently dual investigations may be conducted by both the Department of Housing and Urban Development (HUD) and the Kansas Human Rights Commission (KHRC) on the same complaints concerning disability or familial status. By making KAAD comparable to the federal law KHRC will be able to initiate investigations into fair housing complaints for the federal government. KHRC will receive approximately \$850 for each complaint they investigate for HUD. Not only will this eliminate duplication of services, but could also generate nearly \$150,000 a year in federal funds to the State.

In light of the present budget constraints it behooves the legislature to look for savings and eliminate waste where ever possible. HB 3164 offers an opportunity to do just that and the opportunity to receive additional federal revenue for doing something which is already required by the existing state law.

KCDC urges you to act favorably on HB 3164. I will stand for any questions you may have at this time.

*House Federal & State Affairs
March 5, 1992
Attachment #2*

STATE OF KANSAS



TOPEKA

HOUSE OF
REPRESENTATIVES

HB 2875

TOM THOMPSON
REPRESENTATIVE, 24TH DISTRICT
JOHNSON COUNTY
5001 ROCK CREEK LANE
MISSION, KANSAS 66205
(913) 236-9161

STATE CAPITOL, ROOM 112-S
TOPEKA, KS 66612
(913) 296-7686

COMMITTEE ASSIGNMENTS
MEMBER ENERGY AND NATURAL RESOURCES
LOCAL GOVERNMENTS
ELECTIONS

I would like to thank Chairperson Sebelius and members of the Federal & State Affairs Committee for the opportunity to speak on HB 2875.

This bill is intended to do one thing. That is to prohibit the use of minors in advertising for gambling. This can be seen on Page 2, lines 26 & 27 where it says:

(b) The Kansas lottery shall not engage in any advertising or promotional activities that involve any person under 18 years of age, and page 4, lines 3, 4, & 5 where it says:

(2) engage in any advertising or promotion of parimutuel wagering or racing with parimutuel wagering that involves any person under 18 years of age.

There are several activities in Kansas today that by statute are considered acceptable for adults but not for minors. These include drinking, smoking, and, of course gambling. Federal law prohibits ads for tobacco products and for most alcoholic beverages. Since gambling issues, up until recently, have been the jurisdiction of the state, there have been few restrictions on advertising for it.

Certainly minors are and should be able to participate in aspects of the racing and lottery industry. Breeding and grooming animals being one aspect and being involved with advertising firms that might employ minors or have interns another possibility. Furthermore, I do not intend to prohibit minors from seeing these ads. This would be impossible to enforce.

Why do this? Certainly broader questions are being asked in the legislature about gambling today. The reason is to limit the promotion of gambling among the children of Kansas. Some might say a race track is not just gambling, however the

*House Federal & State Affairs
March 5, 1992
Attachment #3*

primary reason people go to a race track is to gamble. If this was not true, race tracks would have been developed in Kansas before betting was permitted. Have minors been used in promotions? Yes, last summer the Woodlands had an ad on T.V. where a little girl said she wanted to go to the Woodlands too. Does this prohibit this type of promotion? No, cartoons could do the same thing. Perhaps the committee needs to look at this too. Furthermore, this bill does not prohibit minors going to a race track although many might think this to be appropriate. I certainly would not object to racing facilities having events that are not scheduled during the time when races with wagering take place, a time when minors could be invited to attend through the media that is completely separate from the regular racing day. Betting is not for children. Furthermore, race tracks are not amusement parks, nor are they petting zoos. Parimutuel events and the lottery should not be promoted that way either.

I hope you will give this bill serious consideration and pass it out favorably.

HF 35A
3/5/92
3-2



Joan Finney
Governor

Kansas Lottery

Ralph W. E. Decker
Executive Director

HOUSE FEDERAL AND STATE AFFAIRS COMMITTEE
House Bill #2875

March 4, 1992

Since the Lottery began operations in 1987, more than 40 television commercials have been produced. In these commercials, we have tried to educate consumers about new products, new winners and how lottery revenues are helping to build a better Kansas.

Many of these commercials feature real life scenes or what we call "slice of life" episodes. Our commercials have gone on the road featuring Kansans playing the games in their homes, work places or even retail stores. In these ways, we can help our players visualize the benefits of playing the Kansas Lottery.

To date, only four of our forty commercials have featured persons under the age of 18. In three of those commercials, the young people featured had secondary roles to the adult actors. In the fourth spot, the commercial explained how Lottery revenues helped to build a new public television tower in southwest Kansas. This commercial pointed out that with this new tower, such PBS programming as "Mr. Rogers Neighborhood" would now be available to the area. The commercial featured a young boy, approximately ten years old, walking home from school and sitting down in his living to watch Mr. Rogers. In fact, the Lottery received permission from Fred Rogers himself to use his voice in the commercial. He reviewed the script and endorsed the story we were telling to Kansas about how young people would benefit from Lottery revenues.

To date, the Lottery has not received any complaints from the public at large regarding our limited use of young persons in our commercials. The Lottery has never employed a minor in a commercial to "ask for the sale" or encourage viewers at home to buy a lottery ticket. When we do employ minors, the Lottery adheres to the federal child labor laws. In addition, we do compensate these young actors according to union guidelines for wages and benefits.

The Lottery is very sensitive to the issue of minors playing our games. Recently, the Lottery was offered the opportunity to participate in an event at an amusement park. After careful discussions by our staff, we felt the event would be attended mainly by children under the age of 18 and would not be a proper setting for the Lottery to promote its product.

The sales impact of the proposed legislation is difficult to forecast. But if the proposal is approved, it would make the Lottery's task of product information, institutional advertising and winner awareness

more difficult. The Lottery has never been charged with deceptive advertising in its four-and-a-half-year-old history. There is a self-policing policy in effect to critique the advertising campaigns before they are aired. Our ads are reviewed extensively by our assistant attorney general and in many cases, we ask for the opinion of the consumer protection division with the attorney general's office before an ad is produced.

The checks and balances are in place; any legislative restrictions would be an unnecessary layer of bureaucracy.

HF 3SA
3/5/92
4-2



800 SW Jackson #818, Topeka, KS 66612-1216

913/235-1307 FAX 913/233-3052

March 4, 1992

TO: Members of the House Federal and State Affairs Committee

FROM: Harriet Lange, Executive Director

RE: HB 2875 / Advertising of the Lottery and parimutuel racing

HB 2875 would prohibit the lottery and any licensed parimutuel race track in Kansas from engaging in any advertising or promotion that "involves any person under 18 years of age."

As a matter of principle we oppose legislation that restricts advertising of any legal product, service, or enterprise, as long as the advertising is not fraudulent or misleading.

It is our understanding that the sponsor's intent is to prohibit the "appearance" in these ads by anyone under 18 years of age. However, as the bill is currently worded, in its broadest interpretation "involve" could conceivably refer also to those who "view" the ads.

The bill would appear to restrict the advertising of Kansas enterprises only, who must compete with lotteries and/or tracks in our neighboring states. This "double standard" could place Kansas at a disadvantage.

In any event, governmental restriction on content of ads or commercials and how they are designed smacks of censorship and we must object.

Thank you for your consideration.

PRESIDENT

Bob Newton
KLWN/KLZR
Lawrence

PRESIDENT-ELECT

Jerry Hinrikus
KABJ/KSAJ
Ablene

SECRETARY/TREASURER

Lea Firestone
KVOE/KFFX
Emporia

PAST PRESIDENT

Gary Shorman
Eagle Communications
Hays

EXECUTIVE

DIRECTOR

Harriet Lange, CAE
Topeka

DIRECTORS

Allan Buch
KSNW TV
Wichita

Kent Cornish
KTKA TV
Topeka

Ed Klimek
KQLA FM
Manhattan

Marty Mella
KLOE/KKCI
Goodland

Ed O'Donnell
WIBW AM/FM
Topeka

Colleen O'Neil
KZXL FM
Great Bend

Cliff Shank
KSKU FM
Hutchinson

Chet Tart
KRBB FM
Wichita

March 5, 1992
Attachment #5



Joan Finney
Governor

Kansas Lottery

Ralph W. E. Decker
Executive Director

LOTTERY FACTS -- FROM DAY 1

1. The Kansas Lottery was voted in on November 11, 1986, with 64% of the Kansas voters approving.
2. Majority approved in 90 of the states 105 counties.
3. Governor signed into law on March 12, 1987.
4. Director appointed on April 16, 1987.
5. Kick-off of the Kansas Lottery was November 12, 1987.
6. Sales (See Attached Figures)

KANSAS LOTTERY

To Date Activity 02/29/92

Net Sales

FY 88	\$65,804,532
FY 89	68,188,022
FY 90	64,530,640
FY 91	70,206,003
FY 92	<u>51,336,625</u>
To Date Total	\$320,065,822

Retailer Commissions

FY 88	\$3,618,110
FY 89	3,602,985
FY 90	3,318,244
FY 91	3,665,904
FY 92	<u>2,710,565</u>
To Date Total	\$16,915,808

Game Prizes

FY 88	\$30,123,006
FY 89	33,755,427
FY 90	28,941,942
FY 91	33,048,686
FY 92	<u>24,165,966</u>
To Date Total	\$150,035,027

Transfers To State

FY 88 *	\$11,343,321
FY 89	24,500,950
FY 90	19,259,917
FY 91	19,453,470
FY 92	<u>18,048,080</u>
To Date Total	\$92,605,738

* Includes \$2,843,321 Loan & Interest Payback

FY 92 UNAUDITED

Projected Sales & Transfers

Through Fiscal Year 1992

Sales	\$343,729,197
Transfers	97,057,658

HF 35A
3/5/92
6-2

FY '92 LOTTERY SALES - KANSAS

WEEK	INSTANT LESS FREE TICKETS	PULLTABS	ON-LINE TICKETS	TOTAL SALES FOR WEEK
July 1 - Nov 2	\$10,846,992	\$691,333	\$13,731,730	\$25,270,055
Nov 3 - Nov 9	\$1,055,801	\$44,208	\$870,164	\$1,970,173
Nov 10 - Nov 16	\$847,382	\$36,360	\$1,153,014	\$2,036,756
Nov 17 - Nov 23	\$793,875	\$40,950	\$1,922,709	\$2,757,534
Nov 24 - Nov 30	\$231,680	\$22,620	\$662,991	\$917,291
Dec 1 - Dec 7	\$764,066	\$41,202	\$763,348	\$1,568,616
Dec 8 - Dec 14	\$981,915	\$40,530	\$737,563	\$1,760,008
Dec 15 - Dec 21	\$1,098,968	\$39,204	\$639,410	\$1,777,582
Dec 22 - Dec 28	\$178,415	\$17,592	\$621,183	\$817,190
Dec 29 - Jan 4 '92	\$597,920	\$37,860	\$774,871	\$1,410,651
Jan 5 - Jan 11	\$605,818	\$49,044	\$899,594	\$1,554,456
Jan 12 - Jan 18	\$624,915	\$43,530	\$657,823	\$1,326,268
Jan 19 - Jan 25	\$687,902	\$30,636	\$912,104	\$1,630,642
Jan 26 - Feb 1	\$1,023,783	\$42,192	\$744,728	\$1,810,703
Feb 2 - Feb 8	\$473,333	\$51,888	\$883,781	\$1,409,002
Feb 9 - Feb 15	\$573,147	\$49,824	\$869,437	\$1,492,408
Feb 16 - Feb 22	\$561,369	\$48,042	\$822,068	\$1,431,479
Feb 23 - Feb 29	\$795,735	\$46,830	\$913,872	\$1,756,437
FY TOTAL	\$22,743,016	\$1,373,845	\$28,580,390	\$52,697,251
			Less 6% Instant	\$51,332,670
	Total projected for Full FY			\$76,265,681
LY TOTAL TO DATE	\$21,336,212	\$1,387,814	\$27,788,551	\$50,512,577

HFSA
3/5/92
6-3

KANSAS LOTTERY
 WINNER UPDATE
 02/29/92

	Estimated # of Winners	Total Dollar Amount Won
INSTANT	36,445,870	\$107,437,895)
PULL-TAB	2,980,348	4,919,064)
LOTTO*AMERICA	325,552	97,665,594
CASH LOTTO	1,037,101	20,742,015
KENO	268,509	2,685,090
PICK 3	5,677	462,810

ALL GAMES	41,063,057	\$233,912,468

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AVERAGES:

PER YEAR	8,774,075	\$49,980,826
PER MONTH	731,173	4,165,069
PER WEEK	182,793	1,041,267
PER DAY	26,113	148,752
PER HOUR	1,088	6,198
PER MINUTE	18	103
PER SECOND	0.30	2

HF SA
 3/5/92
 6-4

KANSAS LOTTERY FUNDS - WHERE DOES THE MONEY GO?

The most frequently asked question at the Kansas Lottery is "Where does the money go?" The State receives 30 cents of every dollar of Lottery sales. The State's share of Lottery sales goes directly into the Gaming Revenues Fund. The Kansas Legislature has earmarked 90 percent of Lottery funds for EDIF (economic development initiative fund) and the remaining 10 percent is allocated to prison construction. The following report is supplied by Division of Budget on the Economic Development fund for the 1992 fiscal year.

<u>Department of Commerce</u>	
State Operations	4,325,504
Work Force Training Programs	2,250,000
Certified Development Companies	475,000
Small Business Development Centers	325,000
Trade Show Assistance	200,000
Community Planning Grants	445,000
<u>Kansas Technology Enterprise Corporation</u>	
Operations and Assistance (includes funding for the Centers of Excellence at universities)	7,024,015
Agriculture Value Added Centers	647,765
<u>Kansas Arts Commission</u>	
Programming Grants	620,734
<u>State Historical Society</u>	
Humanities Grant	65,000
Historic Site Improvement	80,000
<u>Board of Agriculture</u>	
Marketing Program	225,000
<u>State Fair</u>	
Capital Improvements	100,000
<u>Department of Wildlife and Parks</u>	
Hillsdale Park Development	410,000
Land Acquisitions	90,000
Park Maintenance	150,000
<u>State Water Plan Fund</u>	2,000,000
<u>Public Broadcasting Commission</u>	
KHCC Expansion	68,000
<u>Department of Revenue</u>	
County Reappraisal Aid	3,000,000
<u>Department of Education</u>	
At Risk and Innovative Prgm. Ass.	1,000,000
At Risk Academy	50,000
Ks. Cultural Heritage-Arts Centers	25,000
Vocational Education Capital Outlay	1,000,000
Vocational Education School Aid	500,000
Technology Innovation and Inter- ship Program	500,000
<u>Kansas Foundation for Agriculture</u>	29,000
<u>Kansas Inc.</u>	
Salaries and Wages	99,462
Animal Health Dept. State Operations	50,000
Kansas State University Cooperative Extension	1,000,000
TOTAL ALLOCATIONS	26,754,480

HF 3 SA
3/5/92
6-5



Joan Finney
Governor

Kansas Lottery

Ralph W. E. Decker
Executive Director

Kansas Lottery

Listing of Audits, Studies and Reviews

October 23, 1991

Financial and Compliance Audits (Agency)

FY 1987 - Legislative Division of Post Audit
FY 1988 - Arthur Andersen & Co
FY 1989 - Arthur Andersen & Co
FY 1990 - Wendling, Noe, Nelson and Johnson
FY 1991 - Arthur Andersen & Co

Financial and Compliance Audits (Statewide)

FY 1989 - Arthur Andersen & Co
FY 1990 - Arthur Andersen & Co
FY 1991 - Arthur Andersen & Co

Special Studies

March 1988 - Ernst & Young
April 1990 - Myers & Stauffer

Performance Audits (Various subject matter)

April 1988 - Legislative Division of Post Audit
January 1989 - Legislative Division of Post Audit
February 1990 - Legislative Division of Post Audit

Security Audits

February 1989 - Battelle
February 1990 - Battelle
August 1991 - Battelle

HF 35A
3/5/92
6-6

BOTTENBERG & ASSOCIATES

JOHN C. BOTTENBERG

Statement of
Video Lottery Consultants, Inc.

Presented to the House
Federal and State Affairs Committee
The Honorable Kathleen Sebelius, Chairman

Statehouse
Topeka, Kansas
March 5, 1992

Madam Chairman and Members of the Committee:

I am John Bottenberg, lobbyist for Video Lottery Consultants, Inc. VLC is a manufacturer of video lottery terminals.

We encourage you to support HB 3085. If you do not extend the lottery, you preclude yourselves from choosing to expand the current lottery to include video lottery games, an option you should retain for two reasons:

First, illegal or "gray area" video gaming activity exists virtually in every state and province in North America and is growing. Law enforcement agencies faced with more urgent priorities and budget constraints are unable to allocate the resources necessary to eliminate this activity. Even when the machines are seized and destroyed, they typically reappear.

Video gaming activity has become so established in most states, the cost of prohibition would be staggering. By legalizing video gaming, we would dramatically reduce the incidence of "gray area" activity in Kansas and we would subject the proceeds from video gaming activities to taxation which they currently evade. Polling indicates clear public acceptance when the activity is regulated by government.

Second, economic development and other programs in our state have received at least \$20 million dollars annually on average from the existing lottery. The current lottery may have reached maturity. We should consider expanding if we want to maintain or increase these revenues.

By including video lottery in Kansas games, experts estimate state revenues of \$50-75 million dollars annually above current lottery receipts.

Again, we urge you to support HB 3085.

HF 35A
3/5/92
7-2



Video Lottery Consultants, Inc., (VLC) is the only business today totally dedicated to Video Lottery. Our experience is derived from direct involvement in the statutory and regulatory development as well as operations in Montana, South Dakota, Atlantic Canada, Iceland, Oregon, and Australia, as well as numerous test markets worldwide. VLC manufactures Video Lottery Terminals (VLTs) for all these markets and designed, built and installed the central control systems used in South Dakota, the Canadian Provinces, and Victoria, Australia.

Video Lottery Consultants, Inc., has spent seven years and devoted millions of dollars to the development and enhancement of the world's first comprehensive Video Lottery Control System. As the first business to create a complete system and the only company dedicated to a system which specifically serves government entities -- not casinos -- we have become the industry leader in Video Lottery. The system is unique because it is the first proven system capable of providing complete statewide/provincewide control of Video Lottery using dial-up, rather than on-line communications.

The industry standards for security, control, communications and reliability were developed by VLC engineers who were also pioneers in industrial automation engineering (robotics). It is this expertise that made possible automated, comprehensive central control and high-quality VLTs with the lowest down-time and the highest average return on investment in the industry.

Of the over 6,200 VLTs currently serving the twenty-eight month old South Dakota Video Lottery, approximately 64 percent were supplied by VLC. In Atlantic Canada, VLC VLTs constitute 45% of the VLTs on the system operated by the Atlantic Lottery Corporation since December 1990. In addition, over 2,400 VLC video gaming terminals are in operation in Montana's video gaming program.

VLC is the company in the lottery industry with complete Video Lottery systems experience -- from hardware and software engineering, to distribution, marketing, consulting and systems implementation.

VLC's professional staff includes personnel with experience in legislation, regulation and implementation of both stand-alone and central control video systems. VLC also provides services to regulators in jurisdictions trying to control gray-area gaming.

In fact, VLC has the most first hand Video Lottery experience and operational knowledge. No other company has been involved in a Video Lottery program for as long as VLC or designed a system expressly for a government operated Video Lottery program. We are pleased to share this experience and to assist any jurisdiction considering Video Lottery.

HF 3 SA
3/5/92
7-3

BACKGROUND

Legislative committees video gaming activity has taken hold in virtually every state and
country in North America and all indications are it is growing with dramatic speed.
Law enforcement agencies, faced with more important priorities and limited
resources are unable to allocate the resources necessary to eliminate the activity
from their markets.

A PRIMER TO VIDEO LOTTERY

A growing number of states and Canadian provinces are looking for ways to check
into the market. They were initially which expect public control as well as taxation.

In the State of South Dakota, Governor George S. Mickelson and the Commission
on the State of South Dakota, which was created to legislate and control when
provisions of Article XXIV and XXV of the South Dakota Constitution. Video
gaming as a state realistic and practical alternative to eliminate eradication. Video
gaming activity has become so established in most states that "prohibition" would
be a costly public policy. Significant numbers of livelihoods are now dependent on
this emerging industry and the public acceptance which the activity
has received in the past.

Prepared
by

VIDEO LOTTERY CONSULTANTS, INC.

For

LEGISLATIVE, EXECUTIVE AND REGULATORY OFFICIALS

Members become the first jurisdiction to implement state video gaming program
in 1989. Gaming operations then subject to the licensing, regulation and control
authority of the state as administered by the Department of Justice. (State
control, however, operate in a "stand-alone" mode which means they are not
subject to any central computer control or regular monitoring. Financial reports are
prepared by the owners (usually coin-operators) of the machines, sent to the state
control center and entered into a state data base. Reported revenues can only be
confirmed through on-site audits (about 55-60% of all machines per year) and then
only to the extent that the terminal was fully operational and without interruptions.

HF § SA
3/5/92
7-4

I. BACKGROUND

Illegal or "gray area" video gaming activity has taken root in virtually every state and province in North America and all indications are it is growing with dramatic speed. Law enforcement agencies, faced with more important priorities and budget constraints, are unable to allocate the resources necessary to eliminate the activity. Even when machines are seized and destroyed, they typically reappear.

A growing number of states and Canadian provinces are looking for ways to check this uncontrolled "gray area" activity which escapes public control as well as taxation.

So far, the States of South Dakota, Montana, Oregon, Louisiana, and the Canadian provinces of Atlantic Canada and Manitoba have chosen to legalize and control video gaming as a more realistic and practical alternative to attempting eradication. Video gaming activity has become so established in most states that "prohibition" would be a dubious public policy. Significant numbers of livelihoods are now dependent on this emerging industry and polling indicates clear public acceptance when the activity is tied to government control and deposits to public coffers.

Video Lottery is especially attracting public officials' attention as a lucrative new source of revenue. While gray area games generate no public revenues to states or provinces at present, the Montana and South Dakota experience indicates the potential to earn \$102.75 in net, per capita revenue the first year of operation.

Montana

Montana became the first jurisdiction to implement a state video gaming program in 1985. Gaming operations there are subject to the licensing, regulation and taxing authority of the state as administered by the Department of Justice. Game terminals, however, operate in a "stand-alone" mode which means they are not subject to any central computer control or regular monitoring. Financial reports are prepared by the owners (usually coin-operators) of the machines, sent to the state once a quarter and, entered into a state data base. Reported revenue can only be confirmed through on-site audits (about 5%-6% of all machines per year) and then only to the extent that the terminal was fully operational and without interruptions.

South Dakota

In 1989, the South Dakota Lottery implemented the first state **Video Lottery** system where all Video Lottery Terminals, called "VLTs" in the industry, operate under round-the-clock control and daily monitoring of a central computer using dial-up communications. Daily financial reporting, auditing, and systems management occur automatically, allowing 100% control of VLTs. Any financial discrepancies, operating failures or attempted VLT tampering are detectable at the central site. The central computer documents how much each VLT earned and how much is owed to the state and then electronically transfers funds into the state account every two weeks. Over 6,200 VLTs are now on the South Dakota system.

Roughly 90% of the state's VLTs are owned and serviced by coin operators and placement is restricted to businesses licensed for on-premise consumption of alcoholic beverages.

Atlantic Canada

Late in 1990, The Atlantic Lottery Corporation implemented the world's first multi-jurisdictional **Video Lottery** system using a multiple data base adaptation of the South Dakota dial-up system. In addition to performing all the functions of the South Dakota application, the multitasking system also is able to totally segregate the operations of New Brunswick, Newfoundland, Nova Scotia and Prince Edward Island from one another without duplicating computer hardware.

In New Brunswick and Prince Edward Island, VLTs are owned and serviced by coin operators under an agreement with their respective Lotteries Commissions. In Newfoundland and Nova Scotia, VLTs are owned and serviced by the Atlantic Lottery Corporation itself. The system readily handles each kind of configuration and automatically adjusts for differences in accounting and revenue collection requirements. There is a combined total of over 5100 terminals in operation on the system.

II. VIDEO LOTTERY INTRODUCTION

Video Lottery, as envisioned by VLC, Inc., is a government regulated and controlled program whereby the government jurisdiction is responsible for ensuring fair play, that all public funds are fully accounted for and that the common public interest is being protected.

To provide this control and protection, three essential ingredients are necessary. First, game terminals must be designed to perform reliably and with safeguards against manipulation. Second, a centralized computer system must be capable of fully managing, auditing and detecting discrepancies in each terminal. Third, program policies must be socially acceptable and in the public interest.

Typically, gray area game machines have mechanisms which allows one to change the winning odds, do not provide accounting data or audit trails and, are unable to work as part of a central control and management system. Video Lottery terminals are substantially different; they are manufactured to work as part of a system controlled and audited by a central computer. Each terminal communicates with the system over standard telephone lines using "dial-up" technology.

Game terminals also meet performance and operating standards, such as guaranteed fixed minimum payback percentages, random game play, electronic and paper ticket recording of accounting and operating data.

Full public accountability is achieved through a comprehensive central control system which accounts for and audits every coin, credit and game played, won or lost. All data is communicated directly to the system without opportunity for loss or corruption by unsecured or off-site devices. Inaccurate reporting (intentional or otherwise) or loss of data are precluded through computer safeguards.

Social acceptability of video games is especially important for a public lottery program. Discouraging compulsive behavior personalities is especially important and achieved through low prize and cost structures. Cost per game is typically 25 cents with ceilings on bets and prizes set by each state or province (e.g. \$50 to \$100 maximum prize per 25 cent bet; \$2.00 bet limit).

In addition, it is important to prohibit progressive jackpots and limit the number of terminals (5-10) allowed at each licensed establishment. These measures keep the game in the realm of entertainment rather than becoming opportunities for high stakes gambling or environments for the proliferation of casinos.

Restricting play by minors is also important to control by allowing placement of games only in age controlled environments, such as licensed taverns.

Video Lottery revenues are generated from a high volume of play due, in large part, to payback percentages above 80%. During a play cycle an individual has a tendency to play back some of his original investment/winnings. The result, or "net revenue" is what is left in the machine after prizes are paid out.

Net revenues are then split among the vested parties, such as the state or province, coin operators and the retail locations. The government's share is usually set in law (15% in Montana) or by regulation (35% in South Dakota) and the remainder is split between the private sector parties as they determine.

III. OPERATING REQUIREMENTS

Unlike traditional lottery games, which earn revenues based on low volume and high margin, Video Lottery generates very substantial revenues from high volume, low margin games. The sheer number of games played are far greater than in conventional lottery games--consider that same two dollars that buys two conventional lottery games generates, on average, more than thirty Video Lottery games.

The number of Video Lottery terminals necessary to serve any given market are greater than the number of "online" lotto terminals for the same market. And, where conventional online capabilities are generally limited to about one-million transactions per hour, a Video Lottery program in a medium sized state will be managing more than 24 million transactions during peak hours.

This requires an operating, distributing and servicing system which is markedly different from anything now in operation in most state gaming and lottery programs.

Video Lottery requires its own central control system and game terminals and has some unique terminal distribution, terminal services and retail location characteristics.

Following are brief discussions of each:

A. Central Site

The North American Gaming Regulators Association's Standards on Coin-Operated Video Gambling Devices, recommends that game terminals communicate with a central computer to monitor performance, collect accounting data, conduct audits and provide financial management. NAGRA further recommends that communications be via standard telephone lines using "dial-up" technology as the most cost-effective method.

Compared to a stand-alone system (e.g. Montana), a central control program requires fewer employees, less paperwork, eliminates loss of revenue through skimming or other control problems and, maximizes revenue through efficient electronic collection of funds and investment opportunity.

Enforcement and regulatory requirements are also significantly reduced by the system. Tedious hand-auditing requirements necessary to verify the accuracy of reports are eliminated. The need to continually verify programs on computer chips to master chips is accomplished at a central computer console, not by on-site field checks. Undercover surveillance operations to detect skimming or under-reporting are unnecessary because daily polling minimizes any opportunity to tamper. A tampering attempt will show immediately on the system as a memory fault or error that is easily investigated.

Public confidence and trust in the system seems to have a significant effect on the volume of player activity. The dramatic difference in elapsed time between Montana and South Dakota reaching equivalent levels of play is a case in point (see per capita revenues, FACT SHEETS). No doubt, the daily oversight provided through the centralized system is a major contributor to generating this trust in South Dakota.

Installation of a central site system can generally be accomplished in 60 working days or less. The speed of installation of a central system is generally faster than many of the other implementation tasks, i.e. rule drafting and approval, terminal testing, hiring and training of staff, etc., required to be performed by a new jurisdiction and actually benefits these areas by providing standards and procedures to follow.

B. Central Site Operation

To achieve the cost efficiencies of "dial-up" communications and the management of high volume game data, it is necessary for game terminals to perform some functions on their own, such as random game generation, and recording all play and operating events. The central computer, then, polls each terminal's data each night, after business hours.

This allows for all data from a previous day to be compiled into report form by the morning of the next day and ready for staff review. The "polling" is an automatic process and does not require staffing.

A central site can be operated by a private contractor or the state itself. For South Dakota (population 696,000), the state-run central site is staffed by five full-time computer operators, a full time clerical/accounting position, and one-

half of an administrator's time. More than 6,200 game terminals are currently enrolled on the system and significantly more growth can be accommodated before additional staff or system upgrades are necessary.

C. Administrative Overhead

Additional staff support for program administration and oversight are provided through one-half of an administrator's time, an accounting clerk, and three inspectors who perform background checks, on-site inspections and general investigations.

D. Terminals

Game terminals in either a "stand-alone" or "centrally controlled" system must be manufactured for those purposes. Machines typically found in the "gray-area" markets will not work. These machines cannot perform basic audit or security functions necessary in a legal program and past efforts to retrofit the machines have proven unsuccessful.

Thirteen manufacturers are now licensed and producing terminals meeting standards set in South Dakota for operation, communication and audit controls. Because these standards are becoming universal for the industry and more manufacturers are in the process of designing terminals to meet them, they are a logical choice for any future jurisdiction considering a Video Lottery program.

E. Distribution & Service

The distribution and servicing of game terminals constitutes the largest burden in Video Lottery. It is estimated that for every 100 game terminals, at least one-half of a technician, one collector/clerk, one-fourth of a supervisor/manager and one and a half service vehicles are required for proper service and maintenance. In addition, overhead needs include shop, money counting facilities, offices, service and diagnostic equipment and parts inventory.

Conceivably, a state of two-million in population may support about 10,000 game terminals and require a work force of at least 225 just for terminal maintenance, not to mention the other overhead.

Montana and South Dakota use the private sector exclusively for the distribution, maintenance and placement of game terminals. Coin-operators

in these states have proven to be effective providers of these services and have freed the states from establishing another organization to handle these needs.

F. Retailer Commission

Experience has shown that retail locations (i.e. taverns) play a critical role in maximizing sales by influencing the location and presentation of game terminals in their establishments. Experience also shows this occurs best when they significantly share in the profits.

Assigning a value to the point-of-sale space is difficult and Montana and South Dakota leave the matter of splitting revenue between locations and operators to private sector negotiations. Typically, however, the remaining revenue is split 50/50 between the retailer and the operator (for more information on revenue shares, see State Fact Sheets).

VLC's VIDEO LOTTERY SYSTEM

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Background and Qualifications:

Video Lottery Consultants, Inc. (VLC) was the first, and remains the most qualified supplier of a proven and implemented state-wide Video Lottery accounting, security, control and communications system.

The VLC dial-up system, which operates on a Status XA/R5 mainframe computer, was designed as a comprehensive lottery system intended to provide a lottery or regulator, large or small, complete security, control and accounting for any potential number of Video Lottery terminals, locations, terminal operators and manufacturers.

VLC's experience with Video Lottery dates back to the design by company founders of the world's first Video Lottery control system. A number of these dial-up systems were installed and tested by local-option video lotteries in Nebraska, starting at Fort Calhoun in August 1983. The limited test system, which was quickly imitated by others, proved Video Lottery was a viable lottery product.

The test also proved that, for Video Lottery to be secure and controlled, a new system was needed which could provide far more comprehensive data reporting, radically improved terminal, communications and system security and mainframe-sized central computer control. In 1985, VLC was incorporated to design an entirely new system that fulfilled these needs. The new system was developed and, after competitive evaluation, was chosen and installed to control South Dakota's state-wide Video Lottery which started operations in 1989.

The VLC system is operated by the South Dakota Lottery on an intermediate-sized IBM System/88, 4576 Processor Model 83 mainframe, as a regular part of its on-going lottery operations. The system has completed twenty-eight months of fault-free, secure operation. In addition to being the first operational video lottery control system, it is also the third largest computerized lottery control system (of all different forms of lottery games) in the U.S., with over 6,200 terminals currently on the system. The VLC dial-up control system operates at a fraction of cost of a comparable online (dedicated telephone lines) system.

Because of these attributes, The VLC system was selected again in 1990 by the Atlantic Lottery Corporation to control the world's first multi-jurisdictional video lottery. It was configured to control video lottery terminals in the Canadian Provinces of Nova Scotia, New Brunswick, Newfoundland and Prince Edward Island. Just as in South Dakota, the system has never suffered unscheduled down-time or a security breach in its fourteen months of operations.

Key Dial-up System Features:

- Secure encrypted, timed, sequenced and validated communications.
- Complete reporting of terminal financial and operations data.
- Audits of terminal firmware and memory from central site.
- Control of terminal's ability to operate, hours and days of operation and game(s) offered to public.
- Flexibility to control from 100's to 100,000's of terminals.
- Multiple jurisdictions can be separately administered from a single site on either separate or combined data base(s).
- Economy of operation by use of conventional phone lines.
- Control of all major U.S. manufacturers' terminals.
- Automated billing and collection of governmental revenue using Electronic Funds Transfer (EFT) at operator and location levels.
- Integral licensing control and EFT collection of license fees.

Security

The VLC dial-up system employs a number of sophisticated communications security features including Data Encryption Standard (DES) scrambling of transmitted data, a method of data scrambling utilized by the Department of Defense. Validity of data is assured by packetizing of data, passing Cyclic Redundancy Checks (CRC's) over packets, sequencing packets, and timing packets. The securing of data transferred to and from terminals and the fact that the central site only calls out--it does not receive calls--makes the system immune to would-be hackers' attempts to compromise any data.

The VLC system has forced the creation of stringent new security standards for video lottery terminal manufacturers throughout the industry. Complete accounting of play and game statistics, logging of security-related events, regular communications as a precondition of operation, and EPROM Signature Checking capabilities are a few security measures that prevent tampering and keep terminals operating within strictly controlled parameters.

Most of the technology and data field requirements for accounting, security, control and communications are proprietary in nature and copyrighted by VLC. They are authorized for use by VLC within the particular jurisdictions which have legalized video lottery and the system is provided by VLC. To assure a competitive market where a multi-manufacturer system is dictated by law, VLC provides complete engineering assistance to manufacturers including: fully documented communications protocol; PC-based system emulation programs to assist in engineering and development of conforming communications; training sessions for engineers; and follow-up support for a limited period of time.

Terminals report to the central site with either automated system-wide polling or terminal-specific reporting on demand from system operators. For a typical VLC

terminal, an average of 180 fields of data are reported to the central system. Data gathered includes financial information, game play statistics, terminal hardware and memory conditions/failures, times and dates of all door openings, tickets printed, values printed, power fails and similar events. The reported data is processed into reports that are available to management in hard-copy or on-line formats.

Each terminal on the system must be "enabled" by a polling call from the central system before it is capable of displaying a playable game. The enabling call from the central system assures that the terminal is in the exact location for which it is authorized. The call verifies that the terminal has a tested and approved firmware set which is only playable in an authorized manner, tells it which game(s) it can offer, what hours of operation are allowed and authorizes it to play for a predetermined number of hours. If the time authorized runs out before the terminal is polled again, the terminal automatically takes itself out of operation and can't be played until it is re-enabled by the central computer. This safeguards against theft and operation of the terminals in unlicensed settings.

The central site automatically audits the firmware programming of every terminal on the system, assuring the integrity of the entire system every day. Until this development in security, audits of terminal programs could only be done on a few terminals annually in a testing lab or in the field by a trained examiner. In addition to the automated firmware audit, a terminal's firmware can also be audited at any time via selective polling by any authorized system security or accounting user.

System Sizing, Expansion and Components:

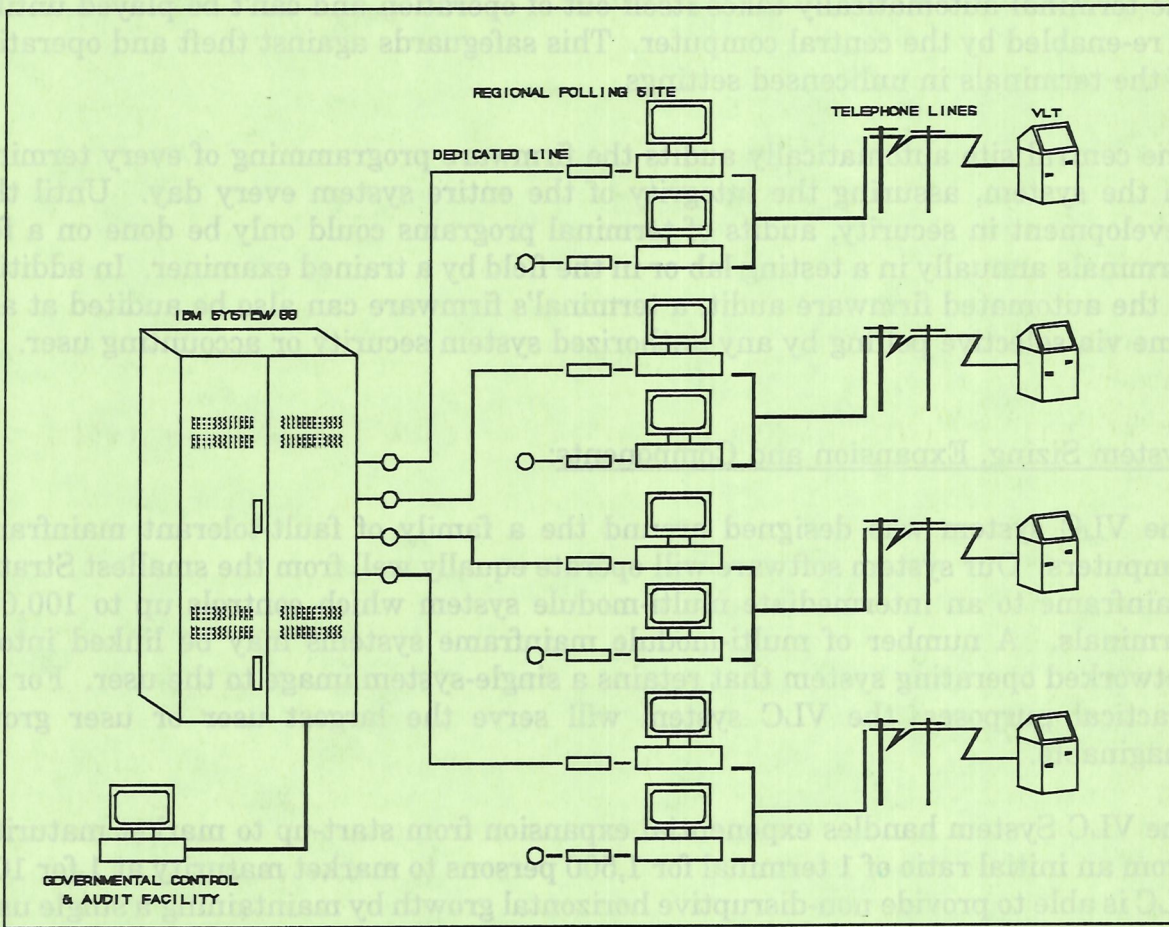
The VLC system was designed around the a family of fault-tolerant mainframe computers. Our system software will operate equally well from the smallest Stratus mainframe to an intermediate multi-module system which controls up to 100,000 terminals. A number of multi-module mainframe systems may be linked into a networked operating system that retains a single-system image to the user. For all practical purposes, the VLC system will serve the largest user or user group imaginable.

The VLC System handles exponential expansion from start-up to market maturity. From an initial ratio of 1 terminal for 1,500 persons to market maturity at 1 for 100, VLC is able to provide non-disruptive horizontal growth by maintaining a single user image as multiple system modules are added via the Stratus Link facility. This means the system will readily grow from 10 to 20 times its initial size without downtime or hardware and software conversion problems. It also means the system's initial size can be matched to the task, avoiding expensive or risky over-sized hardware installations.

One or many jurisdictions can be placed on a single VLC system in a manner that is transparent to the system's operation. If it is desirable to separate accounting and reporting or operational characteristics of one jurisdiction (region, state, county or

city) from the next, it can be done without creating multiple systems. Thus, local municipalities can be individualized with separate data bases and different local control standards within a single VLC central site installation.

Attached to the central system are one or more Regional Polling Site (RPS) systems which handle the direct communications with terminals over dial-up lines. The RPSs are generally housed at the central system site for security and maintenance purposes. However, to take advantage of potential communications savings by using local rather than long distance calling, their design allows for remote placement into areas of high local terminal concentration. VLC's design avoids the multiple security and maintenance risks associated with on-location system components and their negative impacts on system accounting and control.



VLC Video Lottery Control System Diagram

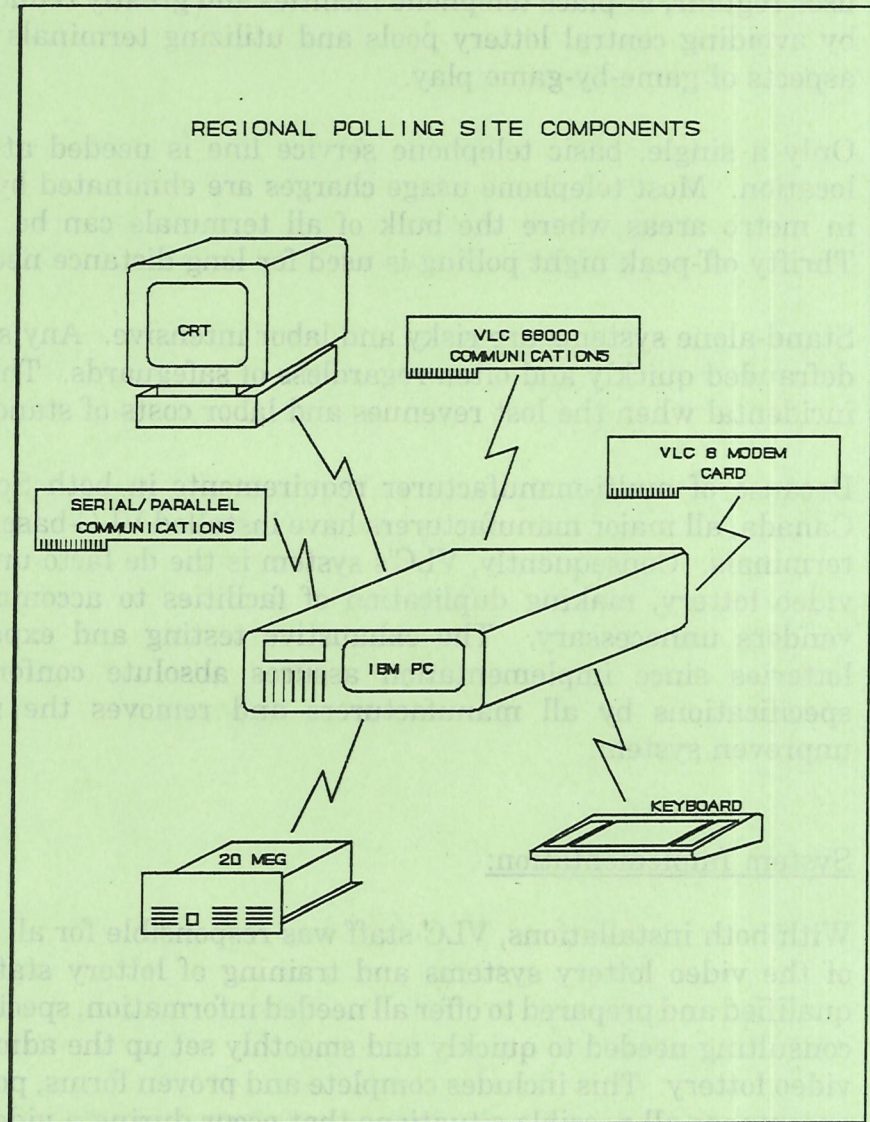
HF 35A
3/5/92
7-15

Each RPS has a polling capacity of approximately 150 locations and 500 VLTs per hour. South Dakota currently uses six RPSs for their entire system and maintain a primary polling window of less than two hours. A RPS is composed of a high-end personal computer, a proprietary VLC communications board set and six telephone communications lines. The communications board set handles the high speed direct connect link to the central system and controls six 1200 modems with fall-back capability to 300 baud.

The RPS concept has proved to be very efficient and economical to operate. It works well in South Dakota in spite of the twenty+ different telephone companies and their mix of electronic and mechanical switching and transmission equipment. Atlantic Canada has presented similar challenges with under-sea, over-water and cellular modes of transmission in use and/or test. Advanced features incorporated into the system's operation allow it to abort a bad connection and automatically re-dial a number several times until a good connection is made. This results in a very low 1-2% non-polling rate, mostly related to out-of-order terminals.

Economy of Operation:

The VLC dial-up system is very economical to install and operate in comparison to either a conventional on-line system or a stand-alone system of non-communicating video machines.



VLC RPS Component Diagram

HF3SA
315/92
7-16

Most of the costs of design, availability, installation delays and dedicated line charges encountered with an on-line system are not incurred with a dial-up system. Dial-up uses regular, in-place telephone facilities and greatly reduces communications traffic by avoiding central lottery pools and utilizing terminals capable of controlling all aspects of game-by-game play.

Only a single, basic telephone service line is needed at a video lottery retailer's location. Most telephone usage charges are eliminated by locating polling facilities in metro areas where the bulk of all terminals can be called using local access. Thrifty off-peak night polling is used for long-distance needs.

Stand-alone systems are risky and labor intensive. Any stand-alone system will be defrauded quickly and often regardless of safeguards. The cost of dial-up control is incidental when the lost revenues and labor costs of stand-alone are considered.

Because of multi-manufacturer requirements in both South Dakota and Atlantic Canada, all major manufacturers have installed VLC-based communications in their terminals. Consequently, VLC's system is the de facto universal control system for video lottery, making duplication of facilities to accommodate different terminal vendors unnecessary. The exhaustive testing and experience conducted by the lotteries since implementation assures absolute conformity to communications specifications by all manufacturers and removes the risks associated with an unproven system.

System Implementation:

With both installations, VLC staff was responsible for all phases of implementation of the video lottery systems and training of lottery staff. VLC is thus uniquely qualified and prepared to offer all needed information, specification, configuration and consulting needed to quickly and smoothly set up the administrative structure for a video lottery. This includes complete and proven forms, policies and procedures that encompass all possible situations that occur during a video lottery start-up.

VLC's implementation plans are complete. They include position descriptions for lottery operating staff, task and time boundary tables, acceptance testing, terminal communications support and testing, training, detailed disaster recovery plans and more. The plans are comprehensive and supported by fully documented procedural and reference manuals.

At the conclusion of installation and training, lottery personnel will be ready to take over complete operation of the system. In prior installations, VLC only provided minor assistance and support after start-up. The comprehensive nature of training make it unnecessary for VLC to be directly involved in system operation after start-up. After start-up VLC functions are generally limited to system support and advanced training assistance e.g., explaining step-by-step execution of first-time or rarely used routines, such as daylight savings time adjustments or year-end backup procedures. For security and confidentiality purposes, VLC does not actually operate the system after acceptance and commencement of data input.

HF3SA
3/5/92
7-17

MONTANA DATA SHEET

(as of June, 1991)

Constitutional or Statutory Requirements

Structure: Game Terminals operate in stand-alone mode. Administered by the Department of Justice.

Payback Rate: Minimum 80% Actual 87-91%

State Share: 15% tax on net machine revenue.

Commissions: Left to the private sector to negotiate.

Games: Poker and Keno. Only one game allowed per terminal.

Limits: Bet limited is \$2.00.
Poker prize limit is \$100.00. Keno prize limit is \$100.00 per \$0.25 bet (effective maximum win with \$2.00 bet is \$800.00).

Operations

Implemented: July, 1985

Staff: 31 Full Time Equivalent (FTE) employees in the Gaming Bureau oversee all gaming. Approximately 75% of the workforce is dedicated to the video gaming area.

Budget: 1.5 million for video gaming control

Accounting: Paper reports are submitted quarterly by vendors and then transferred to the state's computer system requiring millions of manual entries and computations each year.

Control: No day-to-day control of operations. Information is often not available for a full quarter following the end of the quarter. On-site audits and undercover investigations are necessary to confirm vendor-supplied data.

Other Costs: Estimated \$130,000 per year in investment income is lost by using quarterly vendor deposits instead of twice monthly Electronic Funds Transfer(EFT). Additionally, press reports indicate significant skimming is taking place in Montana.

Revenues (weekly, per capita, net revenue)

Latest: \$3.28 (ending June 30, 1991)

Fifth Year: \$2.69

Fourth Year: \$2.14

Third Year: \$1.68

Second Year: \$1.07

First Year: \$0.78

Licensing Fees

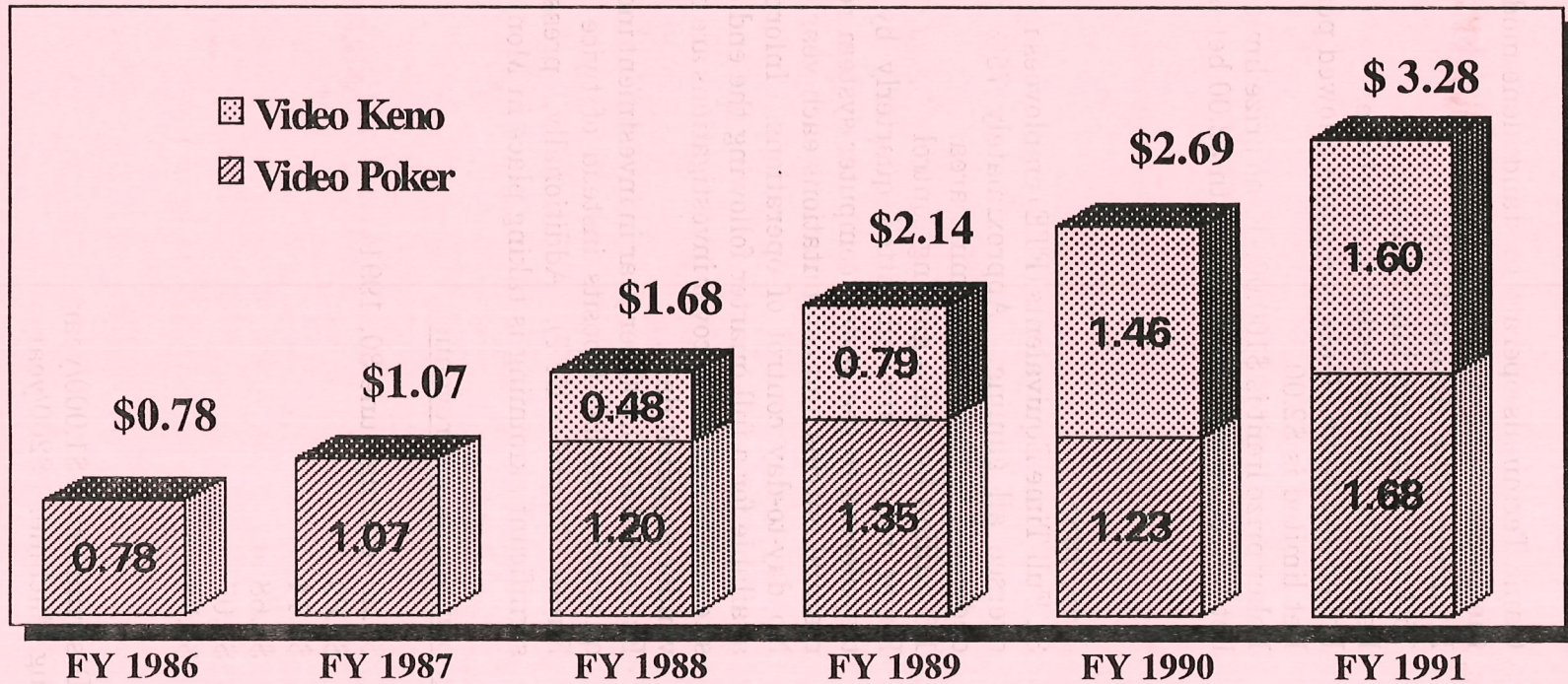
Manufacturer or Distributor: \$1,000/year

Each Video Gaming Machine: \$200/year

HF3 SA
3/5/92
7-18

Montana Weekly Per Capita Net Revenue

\$ Net Per Capita



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3/5/92
7-19

SOUTH DAKOTA DATA SHEET

(as of February 1, 1992)

Constitutional or Statutory Requirements

Structure: The State constitution requires the State to own and operate the program. The Lottery owns the central computer system and the games authorized for play on the terminals. Terminals are owned by the private sector.

Payback Rate: Minimum 80% Maximum 92% Actual 87-92%

State Share: As of January 1992, 35% of net revenues after prizes. Prior rate was 25% and 22.5%.

Commissions: Left to the private sector to negotiate.

Games: Poker, Keno, Blackjack, and line-up games (Bingo) authorized.

Limits: Bet limited to \$2.00.
Prize limit is \$125.00 per \$0.25 bet (effective maximum win with \$2.00 bet is \$1,000.00).

Operations

Implemented: System start-up on October 16, 1989

Staff: Ten (10) Full Time Equivalent (FTEs)

Budget: Fiscal Year 1990 requested \$658,000 from the Legislature. Investment earnings from semi-monthly collections reduced actual State expenditures by approximately \$150,000 annually.

Accounting: Fully automated, daily accounting. Funds are electronically swept (EFT) twice a month from vendors' accounts and deposited in a government account.

Control: Daily accounting detects discrepancies early. Every coin played, collected, and deposited is accounted for each day. Terminals can be enabled and disabled from a central site console.

Other Costs: None.

Revenues (weekly, per capita, net revenue)

Latest: \$3.65 (week ending February 1, 1992)

First Year: \$1.98

Licensing Fees

Manufacturer or Distributor: \$5,000/year

Machine Operator: Greater of \$1,500 or \$100/machine/year

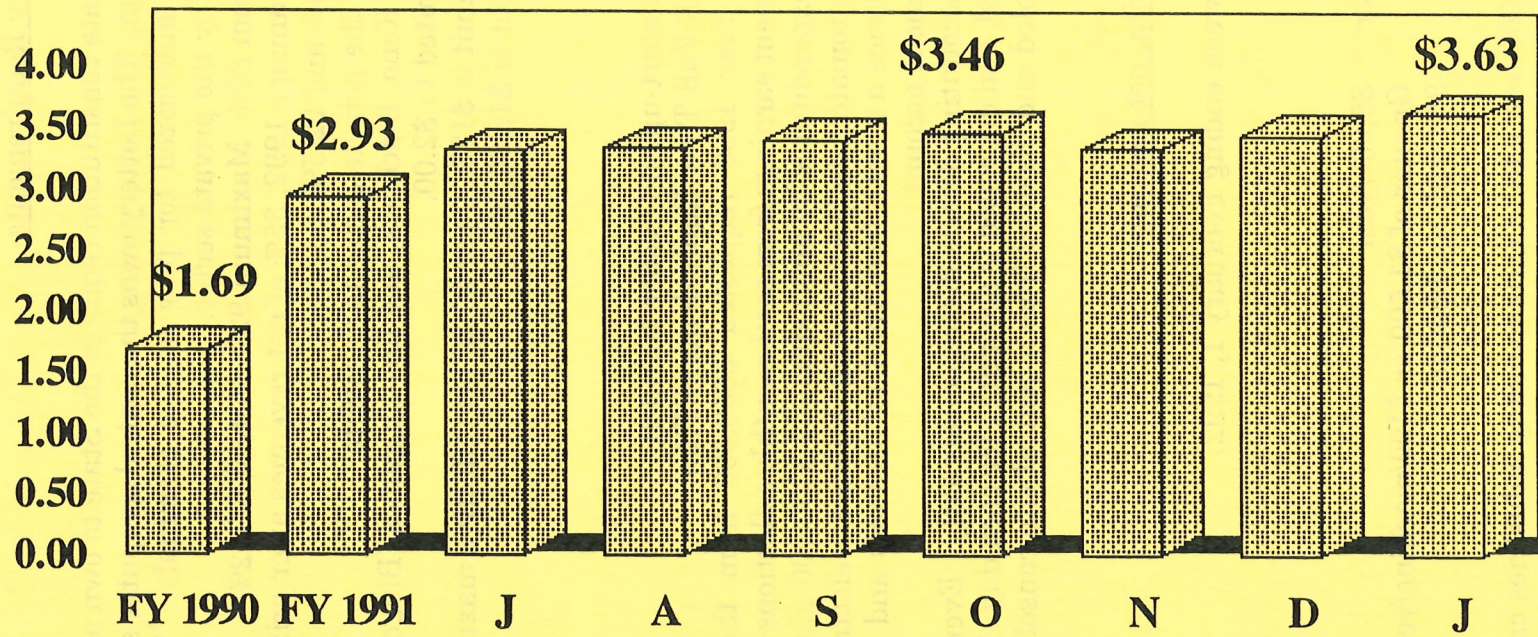
Licensed Establishment: \$50 with application

Economic Impact: Over 2,000 new jobs in corresponding industries created directly as a result of video lottery. The *South Dakota Labor Bulletin* February 1991.

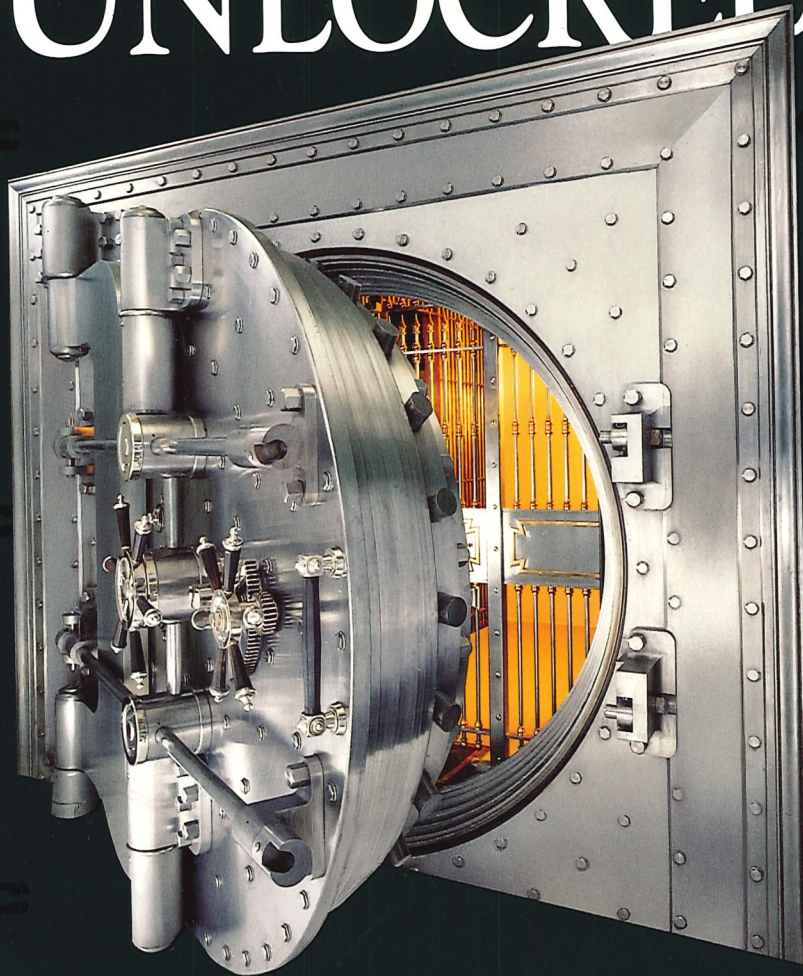
HF 35A
3/5/92
7-20

South Dakota Weekly Per Capita Net Revenue

\$ Net Per Capita



WE UNLOCKED



THE FUTURE OF LOTTERY



HOUSE Fed & STATE Affairs 3/5/92 7-22

Simulating thousands of terminals under peak loads, VLC engineers develop the next generation of technology

High quality manufacturing begins with precision computer-aided design



The World's First

Video Lottery Consultants, Inc. opened the door to tomorrow's lottery . . . with the only proven Video Lottery system specifically designed for state and provincial lotteries.

Video Lottery appeals to a new market of players to provide a previously untapped source of revenue. The steady growth and staying power of Video Lottery means dramatically increased revenue, with little effort. It's the perfect complement to traditional lottery games.

There simply is no other system like it. VLC's security, management and audit controls are uniquely tailored to fit the needs of a government-operated Video Lottery program.

VLC offers products and services for central site control as well as video game terminals, including hardware and software engineering, manufacturing, program implementation and ongoing support. VLC also provides consulting services in regulatory reform and market analysis.

Market Acceptance

Lasting player acceptance is at the heart of Video Lottery's success. VLC technology allows virtually any traditional game or regional favorite to be reproduced in Video Lottery, and VLC can custom design game software that is versatile, fun to play and easy to understand. Free from the limitations of button mechanics, the sharp, colorful touchscreens cue the player's every move, for fast response in a multitude of formats.

Research has shown that high public confidence in the system increases player activity. This confidence flows from the assurance of integrity possible through constant monitoring and full accountability found in the VLC centrally controlled system.

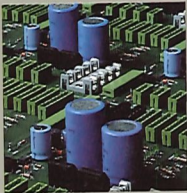
VLC's accounting and audit process eliminates paper reports and random audits and offers, instead, maximum security and control from the comfort of your office.



HF 3 SA
3/5/92
7-23



VLC's Player Activated Technology



VLC's unique engineering innovations have set a new standard for player activated technology. Each player activated game terminal is a powerful computer in its own right. Our engineers have developed

a universal hardware system and, by utilizing the versatile touchscreen control with menu-driven software, VLC can meet the needs of any market.

Without the limitations of dated hardware, screens and choices are specific to each player's decisions, making play fast moving and visually exciting. Player response has consistently shown that VLC provides the maximum entertainment in video technology.

VLC's unique system of central site management, intrinsic security and integrity, and unsurpassed player appeal made Video Lottery a reality. VLC game terminals used in government operated programs of Montana and South Dakota consistently outperform all

others and have set new standards for acceptability.

Now, that same technology is available for a myriad of other applications as well. Whether vending instant tickets or picking your lucky numbers, VLC has the solution. The system was recently adapted to meet the needs of New York's off-track betting industry for an easy to use, highly secure and centrally controlled player terminal. Today, VLC terminals are surpassing all projected levels of use.



VLC's engineers continue to develop Video Lottery for future expansion, whether it's progressive prize pools, sports betting, or tomorrow's new game. VLC unlocks opportunities . . . and makes the future available today.

We're earning the public's trust.



VIDEO LOTTERY CONSULTANTS, INC.

2311 South 7th Avenue

Bozeman, MT 59715

PHONE: 406/586-4423

FAX: 406/586-8211

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7-24

More than 1,500 circuit board functions
are tested before final assembly

From the smallest capacitor to the color
monitor only the best goes into VLC
systems

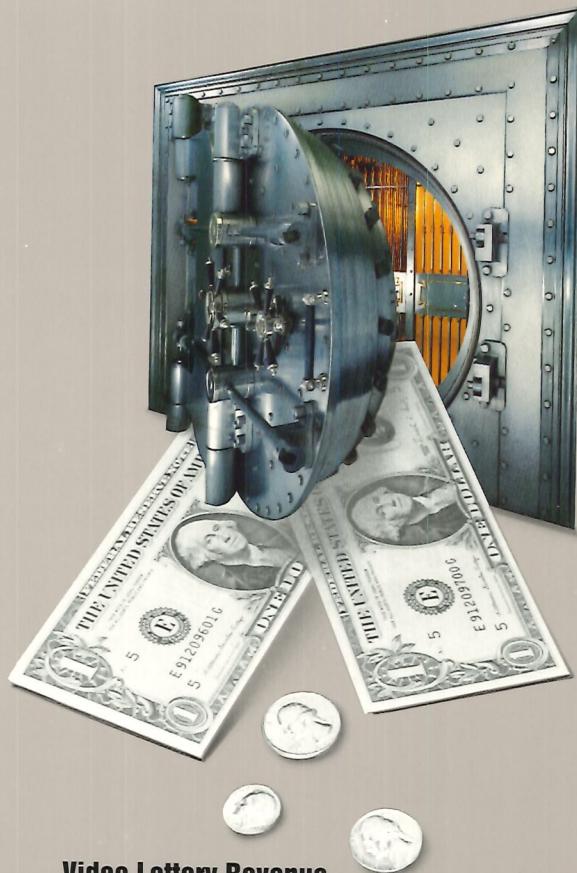


Commitment to Tomorrow

Continually adopting the best in technologies . . . keeping pace with changing consumer habits and interests . . . requires commitment. Video Lottery Consultants is committed to the design and execution of gaming systems for tomorrow as well as today. While others in the industry have focused their efforts and resources on refining the current conventional lottery system technology, VLC has spent the last five years committed to the vision that player activated technology and Video Lottery type products are the systems of the future.



Because of VLC's commitment to this vision, the realization of a new market and evolution of an exciting new group of products is a profound reality. Whether it's new game design, different cabinet styling, on-line progressive prizes, or tomorrow's communication technology, VLC continues to lead the way. Experience and commitment make your dreams a reality . . . with revenue you can bank, security you can trust.



Video Lottery Revenue

During the month of April, 6.5 months after start-up, South Dakota's average weekly per capita revenue after payment of prizes was . . . **\$2.40.**

HF 3 SA
3/5/92
7-25

VLC's central site system is the nation's first statewide Video Lottery program

The Only Proven Video Lottery System



VLC has grown with the only two statewide public video gaming programs in North America. The South Dakota Lottery selected the VLC central site system over competing proposals to serve the nation's first state Video Lottery program. VLC is a major provider of terminals in the Montana Department of Justice regulated program, as well as the South Dakota Video Lottery project.

The VLC system was developed expressly for the government market . . . it is not a modified casino monitoring system.

VLC's reputation is built on its demand for excellence. State-of-the-art hardware, a customized real-time multitasking environment and the strictest quality control add up to the highest standards ever for reliability, accountability and flexibility.

Reliability and Integrity

VLC's unique central site control system is anchored by a fault tolerant IBM System/88. The System/88 operates at an attractive cost-per-transaction ratio and is always processing at peak levels. This IBM family of products is capable of non-disruptive horizontal growth by providing a single system image among multiple System/88 modules, allowing cost effective growth of the system with no downtime.

Duplexed hardware coupled with parallel fault tolerant processing provides an extremely reliable environment. Duplicate power supplies and a battery back-up for memory retention during short-term power failure are also provided. Each component is independent and contains its own error detection logic. Should failure occur, the component is automatically removed from service before data is corrupted. Hot pluggability allows many components to be replaced with no interruption to system operation.

In short, the System/88 is an affordable, yet powerful, system designed to keep you up and running virtually every minute. This fully redundant hardware coupled with VLC's resilient system software delivers the reliability every customer deserves.

Accountability

All data collection, processing and reporting is designed for one ultimate purpose - to provide useful information to public officials. Using an average of more than 180 fields of data from a terminal, more than 80 management and accounting reports are available to provide a multitude of sorted information, diagnostic and field data, and projection tools.



Accurate monitoring and electronically collected funds maximize earnings as well as fiscal accountability.

VLC's custom and proprietary communication protocol provides an unparalleled level of security within the system framework. VLC employs a number of sophisticated communications security features including DES scrambling of transmitted data, using the same algorithm that the Department of Defense utilizes in their sterile communications. Validity of data is assured by packetizing, passing cyclic redundancy checks over packets, and keying them both for sequencing and timing during all transmissions.



HF35A
3/5/92
7-26



REVENUE
YOU CAN BANK ON...
SECURITY YOU CAN
TRUST



HF3 SA
3/5/92
7-27

Games Designed with the Players in Mind



VLC is pleased to offer exciting state-of-the-art touchscreen technology throughout our family of player activated video terminals.

Push buttons, knobs and light pens are gone forever! Players everywhere are excited by the unique "hands on" interaction afforded by our high resolution, multi-color, easy viewing video monitor and touchscreen control technology.

All games employ a variety of additional player friendly technological features carefully researched and designed to stimulate play, enhance revenue, maximize security and minimize maintenance.

Get in touch with the future today, with touchscreen technology from VLC.

- ▶ Large high resolution, anti-glare video color monitor with responsive touchscreen control
- ▶ Attractive multi-color graphics with attract mode and easy-to-follow on-screen instructions
- ▶ Eye catching programmable scrolling banner
- ▶ Ergonomically designed cabinets for optimum player comfort
- ▶ A variety of special game features all designed to assist players and speed play
- ▶ Universal cabinet hosts multiple game format with bilingual options
- ▶ Full on-screen accounting, audit, diagnostic and game statistics
- ▶ Dual optical scan coin acceptors with sequence and timing detection to foil stringing and slamming
- ▶ Multi-denominational bill acceptors
- ▶ Static protected terminal design
- ▶ On board communications capability
- ▶ Battery backed-up memory to preserve game integrity during any power outage
- ▶ Self-diagnostic electronic circuitry for faster trouble-shooting and maintenance



Revenue you can bank on...
Security you can trust.

The operation of these games and the features therein may be subject to various state and local laws or regulations. It is not intended herein to solicit the sales of such games in any legal jurisdiction wherein such games may not be lawfully sold or operated.

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VIDEO LOTTERY CONSULTANTS, INC.
2311 South 7th Avenue Bozeman, MT 59715 PHONE: 406/586-4423 FAX: 406/586-8211

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7-28

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March 5, 1999
7-29

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7-32

Testimony on HB 3085
Extension Of Sunset Date On The State Lottery

Presented to the
House Federal and State Affairs Committee

by
Laura E. Nicholl
Secretary
Kansas Department of Commerce

March 5, 1992

*House Federal & State Affairs
March 5, 1992
Attachment #8*

Testimony on HB 3085

Extension of Sunset Date On The State Owned Lottery

I would like to express the support of the Kansas Department of Commerce for House Bill 3085 which would extend the sunset date for the state-owned and operated lottery to July 1, 1995.

Over the last several years, the availability of gaming revenues through the Economic Development Initiatives Fund (EDIF) has allowed for meaningful expansion of state funding for our state's economic development activities. Over \$26.7 million was appropriated from the EDIF for FY 1992 alone. We consider the funds available through the EDIF to be investments in the future of Kansas. Through these funds, the state has been able to strengthen local development activities, provide work force training, develop more technologically competitive businesses, increase international markets, and other important activities. These efforts have allowed the state to create jobs, increase wealth, and strengthen the tax base of the state and local governments.

The State of Kansas has made serious strides in expanding support and funding for economic development because of the availability of proceeds from state gaming activities. These funds have kept economic development programs from competing for limited state funds needed for education, social services, and other general government programs which are dependent on the State General Fund.

HB 3085
3/5/90
8-2

For the Department of Commerce, EDIF appropriations total just over \$87 million or 28 percent of the total agency budget for FY 1992. The Governor is recommending approximately the same level of EDIF funding for FY 1993. In addition to agency operating costs, the EDIF is used for small business development centers, certified development companies, Kansas Industrial Training and Retraining programs, trade show promotion, strategic planning grants, the Kansas Main Street program, tourism promotion grants, and business recruitment. As you can see, the EDIF portion of lottery and parimutuel proceeds are a significant financing component of the agency's program efforts.

The overall economic development efforts of the state are highly dependent on the proceeds from the EDIF. Without the proceeds made available from the gaming revenues, we believe that it would be very difficult to replace over \$20 million provided by the EDIF from other limited state resources including the State General Fund. If the lottery revenues were not available it would appear that the state's economic development program would have to be significantly curtailed at a time when we need to continue the momentum we have gained over recent years.

Thank you for the opportunity to appear before you today in support of continuation of the state owned Lottery.

HF 35A
3/5/92
8-3

**PROJECTED VIDEO LOTTERY REVENUES IN KANSAS
A SUMMARY STATEMENT**

by

**William T. Terrell
Associate Professor of Economics
Wichita State University**

March 5, 1992

*How. Initial? vide affare
March 5, 1992
Attachment #9*

1. Video games are complementary with other gambling opportunities now legal in the state. Video games are distinctly different from lottery in that the former permit interaction and instant payoffs. The points of sale for these two alternatives are almost completely separate. There will be some overlap of sources if retail liquor stores are authorized to offer video lottery. But any net effects of consumer switching between these two alternatives is thought to be minimal. The direction of the transfer of patronage is clouded by the apparent trend of lower lottery sales and the remedy of increasing prizes as a percent of sales.

2. Kansas projections are based on applying a scale factor to the number of terminals and to the revenues remaining after paying prizes out of sales (net machine income) in South Dakota. The scale factor is the ratio of Kansas 1990 population to that of South Dakota (namely, 3.5597). This is the most conservative criterion among several that are relevant. The following table shows population as well as other measures of relative economic standing.

	<u>Kansas</u>	<u>South Dakota</u>	<u>Ratio KS/SD</u>
Population (1990)	2,477,574	696,004	3.5597
Personal Income (1988 in \$1,000)	39,320,369	9,094,529	4.3235
Total Employment (1988 Frequency)	1,426,459	382,354	3.7307
Wage & Salary Employment (1988 Frequency)	1,139,961	286,575	3.9779
Eating and Drinking Place Sales (1990 in \$1,000)	1,566,326	420,738	3.7228

2/5/92

Other characteristics are held to be the same in both states: About 90% prize payoff per game, about 4 -5 terminals per retail establishment, market stabilization at about 1 terminal per 105 to 110 residents, and 4-plus games played from credits won after cash deposit for a cash prize payout of 63 - 64% of total cash paid in, stable or long-run weekly net machine income of \$390 to \$400 per terminal, and a weekly per capita population net machine income of \$3 to \$4.

3. The Kansas projections are shown in Table 2 as these depend on the South Dakota experience shown in Table 1. Applying the scale factor (3.5597) to the number of terminals and the net machine incomes in South Dakota yields the projections in Table 2. No allowances are made for future population growth, future increases in personal income or for sales to residents of other states.

Table 2, the top panel, shows that Kansas could expect about \$65.8 million in state revenues for fiscal 1993 if video lottery begins in mid-October, 1992. For the third 52-week period after commencing video gaming, the state can expect a video revenue of \$182.9 million (last line of lower panel).

The chief warnings concerning these estimates is that they depend on assuming that state revenue equal to 40% of net machine income does not discourage operators and establishments from participation. Likewise, since it is well-know that bettors and the amount they wager is sensitive to the takeout, the state should maintain the terminal software so that the winning probability is as near .9 as possible.

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TABLE 1

SOUTH DAKOTA VIDEO LOTTERY REVENUES

SOUTH DAKOTA FISCAL YEARS

Fiscal Year Ending June 30	Weeks From Inception	Ending Number of Terminals	Fiscal Year Net Machine Income (\$)	Fiscal Year State Share (\$)
1990	37	3813	46,215,137	10,398,406
1991	89	5763	106,641,315	25,418,277

SOUTH DAKOTA 52-WEEK YEARS

Twelve Month Year	Weeks From Inception	Ending Number of Terminals	Total Net Machine Income (\$)	Total State Share (\$)
First	52	4567	73,756,340	16,591,111
Second	104	6128	114,224,435	28,016,989
Third	156	6500	128,438,171	41,823,796

NOTES:

All but the third 52-week period is fact. The third calendar year is based on an estimate for 37 weeks and fact for 15 weeks. The 37-week estimate derives from assumed average 6400 terminals yielding \$390 net machine income per terminal per week.

Source: Appendix Tables 1 and 2.

TABLE 2

KANSAS PROJECTED VIDEO LOTTERY REVENUES

KANSAS FISCAL YEARS

Fiscal Year Ending June 30	Weeks From Inception	Ending Number of Terminals	Fiscal Year Net Machine Income (\$)	Fiscal Year State Share (\$)
1993	37	13, 573	164, 512, 023	65, 804, 809
1994	89	20, 515	379, 611, 089	151, 844, 436

KANSAS 52-WEEK YEARS

Twelve Month Year	Weeks From Inception	Ending Number of Terminals	Total Net Machine Income (\$)	Total State Share (\$)
First	52	16, 257	262, 550, 443	105, 020, 177
Second	104	21, 814	406, 604, 721	162, 641, 889
Third	156	23, 138	457, 201, 357	182, 880, 543

NOTE:

The projections are based on South Dakota numbers of terminals and net machine income. These are multiplied by the ratio of Kansas population to that of South Dakota (3.5597). The state share is computed as .4 of net machine income.

Source: Text and text Table 1.

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9-4

APPENDIX TABLES AND FIGURES

Table 1: Weekly Record of South Dakota Video Lottery

Table 2: Monthly Record of South Dakota Video Lottery

Figure 1: South Dakota Number of Terminals Weekly

**Figure 2: South Dakota Weekly Net Machine Income
Per Terminal**

**Figure 3: South Dakota Monthly Prizes as a Per Cent
of Total Cash In**

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APPENDIX TABLE 1
WEEKLY RECORD OF SOUTH DAKOTA VIDEO LOTTERY

Week Ending	Number of Terminals	Net Machine Income (NMI)	State \$ Revenue	Revenue % of NMI	NMI Per Terminal (\$)	Week Number
10/21/89	767	196,847	44,291	22.50	256.65	1
10/28/89	909	366,275	82,412	22.50	402.94	2
11/04/89	1000	450,218	101,299	22.50	450.22	3
11/11/89	1165	529,358	119,105	22.50	454.38	4
11/18/89	1309	634,867	142,845	22.50	485.00	5
11/25/89	1403	676,932	152,310	22.50	482.49	6
12/02/89	1490	808,751	181,969	22.50	542.79	7
12/09/89	1616	835,773	188,049	22.50	517.19	8
12/16/89	1707	863,909	194,380	22.50	506.10	9
12/23/89	1784	910,913	204,955	22.50	510.60	10
12/30/89	1824	938,210	211,097	22.50	514.37	11
1/6/90	1981	986,388	221,937	22.50	497.92	12
1/13/90	2088	1,073,533	241,545	22.50	514.14	13
1/20/90	2182	1,097,170	246,863	22.50	502.83	14
1/30/90	2194	1,013,834	228,113	22.50	462.09	15
2/3/90	2309	1,410,062	317,264	22.50	610.68	16
2/10/90	2382	1,338,642	301,194	22.50	561.98	17
2/17/90	2458	1,362,188	306,492	22.50	554.19	18
2/24/90	2530	1,505,753	338,794	22.50	595.16	19
3/3/90	2594	1,613,697	363,082	22.50	622.09	20
3/10/90	2639	1,498,233	337,102	22.50	567.73	21
3/17/90	2751	1,551,166	349,012	22.50	563.86	22
3/24/90	2810	1,485,080	334,143	22.50	528.50	23
3/31/90	2857	1,617,061	363,839	22.50	566.00	24
4/7/90	2931	1,639,365	368,857	22.50	559.32	25
4/14/90	2988	1,594,597	358,784	22.50	533.67	26
4/21/90	3055	1,655,226	372,426	22.50	541.81	27
4/28/90	3114	1,485,340	334,201	22.50	476.99	28
5/5/90	3156	1,845,626	415,266	22.50	584.80	29
5/12/90	3204	1,596,891	359,300	22.50	498.41	30
5/19/90	3277	1,683,467	378,780	22.50	513.72	31
5/26/90	3437	1,643,858	369,868	22.50	478.28	32
6/2/90	3480	1,630,579	366,880	22.50	468.56	33
6/9/90	3598	1,646,678	370,502	22.50	457.66	34
6/16/90	3675	1,689,339	380,101	22.50	459.68	35
6/23/90	3756	1,712,275	385,262	22.50	455.88	36
6/30/90	3813	1,627,043	366,085	22.50	426.71	37
7/7/90	3844	1,764,273	396,961	22.50	458.97	38
7/14/90	3940	1,762,070	396,466	22.50	447.23	39
7/21/90	3995	1,804,370	405,983	22.50	451.66	40
7/28/90	4063	1,724,626	388,041	22.50	424.47	41
8/4/90	4220	1,886,658	424,438	22.50	447.08	42
8/11/90	4286	1,849,726	416,188	22.50	431.57	43
8/18/90	4277	1,895,293	426,441	22.50	443.14	44
8/25/90	4337	1,860,622	418,640	22.50	429.01	45
9/1/90	4388	1,826,600	410,985	22.50	416.27	46
9/8/90	4384	1,867,646	420,220	22.50	426.01	47
9/15/90	4427	1,803,621	405,815	22.50	407.41	48
9/22/90	4462	1,809,816	407,208	22.50	405.61	49
9/29/90	4504	1,854,504	417,263	22.50	411.75	50
10/6/90	4541	1,916,379	431,185	22.50	422.02	51
10/13/90	4567	1,914,992	430,873	22.50	419.31	52
Total Period		73,756,340	16,595,111		477.49	

Source: South Dakota Lottery, 207 East Capitol, Pierre SD.

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3/5/02
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APPENDIX TABLE 1

WEEKLY RECORD OF SOUTH DAKOTA VIDEO LOTTERY

Week Ending	Number of Terminals	Net Machine Income (NMI)	State \$ Revenue	Revenue % of NMI	NMI Per Terminal (\$)	Week Number
10/20/90	4598	1,984,932	446,610	22.50	431.69	53
10/27/90	4615	1,975,398	444,464	22.50	428.04	54
11/3/90	4664	2,021,335	454,800	22.50	433.39	55
11/10/90	4695	2,074,985	466,872	22.50	441.96	56
11/17/90	4732	2,029,649	456,671	22.50	428.92	57
11/24/90	4762	1,984,583	446,531	22.50	416.75	58
12/1/90	4785	1,934,396	435,239	22.50	404.26	59
12/8/90	4798	2,083,183	468,716	22.50	434.18	60
12/15/90	4812	1,934,825	435,336	22.50	402.08	61
12/22/90	4843	1,850,553	416,374	22.50	382.11	62
12/29/90	4899	1,690,633	380,407	22.50	345.10	63
1/5/91	4908	2,004,365	501,091	25.00	408.39	64
1/12/91	4918	1,995,155	498,783	25.00	405.68	65
1/19/91	4969	2,008,995	502,249	25.00	404.31	66
1/26/91	4988	2,016,033	504,008	25.00	404.18	67
2/2/91	4998	2,118,974	529,743	25.00	423.96	68
2/9/91	5011	2,216,534	554,133	25.00	442.33	69
2/16/91	5061	2,186,108	546,527	25.00	431.95	70
2/23/91	5061	2,130,605	532,651	25.00	420.98	71
3/2/91	5088	2,218,504	554,626	25.00	436.03	72
3/9/91	5145	2,280,079	570,020	25.00	443.16	73
3/16/91	5157	2,323,168	580,792	25.00	450.49	74
3/23/91	5170	2,251,634	562,923	25.00	435.52	75
3/30/91	5203	2,262,393	565,598	25.00	434.82	76
4/6/91	5242	2,345,224	586,306	25.00	447.39	77
4/13/91	5274	2,438,839	609,710	25.00	462.43	78
4/20/91	5323	2,408,719	602,180	25.00	452.51	79
4/27/91	5373	2,258,325	564,581	25.00	420.31	80
5/4/91	5420	2,546,613	636,653	25.00	469.85	81
5/11/91	5465	2,236,014	559,114	25.00	409.15	82
5/18/91	5532	2,226,695	556,674	25.00	402.51	83
5/25/91	5583	2,144,259	536,065	25.00	384.07	84
6/1/91	5620	2,096,311	524,078	25.00	373.01	85
6/8/91	5654	2,273,776	568,444	25.00	402.15	86
6/15/91	5694	2,155,366	538,842	25.00	378.53	87
6/22/91	5741	2,229,028	557,257	25.00	388.26	88
6/29/91	5763	2,163,814	540,953	25.00	375.47	89
7/6/91	5830	2,353,848	588,462	25.00	403.75	90
7/13/91	5904	2,298,977	574,730	25.00	389.39	91
7/20/91	5907	2,277,975	569,481	25.00	385.64	92
7/27/91	5933	2,274,121	568,530	25.00	383.30	93
8/3/91	5972	2,377,026	594,256	25.00	398.03	94
8/10/91	6012	2,411,423	602,857	25.00	401.10	95
8/17/91	6005	2,327,196	581,799	25.00	387.54	96
8/24/91	6053	2,219,628	554,807	25.00	366.70	97
8/31/91	6102	2,284,987	571,247	25.00	374.47	98
9/7/91	6116	2,419,215	604,804	25.00	395.56	99
9/14/91	6122	2,386,429	596,607	25.00	389.81	100
9/21/91	6130	2,298,372	574,580	25.00	374.94	101
9/28/91	6161	2,389,101	597,275	25.00	387.78	102
10/5/91	6131	2,459,533	614,883	25.00	401.16	103
10/12/91	6128	2,346,602	586,650	25.00	382.93	104
Total Period		114,224,435	28,016,989		407.84	

Source: South Dakota Lottery, 207 East Capitol, Pierre SD.

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WEEKLY RECORD OF SOUTH DAKOTA VIDEO LOTTERY

Week Ending	Number of Terminals	Net Machine Income (NMI)	State \$ Revenue	Revenue % of NMI	NMI Per Terminal (\$)	Number
10/19/91	6137	2,452,756	613,189	25.00	399.67	105
10/26/91	6149	2,379,444	594,861	25.00	386.96	106
11/ 2/91	6137	2,151,173	537,793	25.00	350.53	107
11/ 9/91	6130	2,463,660	615,915	25.00	401.90	108
11/16/91	6109	2,414,345	603,586	25.00	395.21	109
11/23/91	6147	2,425,694	606,424	25.00	394.61	110
11/30/91	6161	2,130,773	532,693	25.00	345.85	111
12/ 7/91	6194	2,490,789	622,697	25.00	402.13	112
12/14/91	6210	2,413,672	603,418	25.00	388.68	113
12/21/91	6210	2,476,456	619,114	25.00	398.79	114
12/28/91	6201	2,188,334	547,083	25.00	352.90	115
1/ 4/92p	6189	2,591,891	647,973	25.00	418.79	116
1/11/92p	6197	2,716,641	679,160	25.00	438.38	117
1/18/92p	6238	2,176,937	761,928	35.00	348.98	118
1/25/92p	6241	2,613,606	914,762	35.00	418.78	119
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Total Period		36,086,171	9,500,596		389.49	

Source: South Dakota Lottery, 207 East Capitol, Pierre SD.

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APPENDIX TABLE 2

MONTHLY RECORD OF SOUTH DAKOTA VIDEO LOTTERY AND FISCAL YEAR TOTALS

End of Month	Cash In (Handle)	Cash Out (Prizes)	Net Machine Income (NM)	Prizes as a % of Cash In	NM % of Cash In (Takeout)	State \$ Revenue	State % of Cash In	State % Of NM
1989:								
Oct	1,871,000.50	1,149,686.00	721,314.50	61.45	38.55	162,295.76	8.67	22.50
Nov	7,079,321.50	4,424,843.00	2,654,478.50	62.50	37.50	597,257.66	8.44	22.50
Dec	11,001,283.75	7,064,772.25	3,936,511.50	64.22	35.78	885,715.09	8.05	22.50
1990:								
Jan	13,711,041.75	8,817,482.50	4,893,559.25	64.31	35.69	1,101,050.83	8.03	22.50
Feb	15,214,716.25	9,579,059.50	5,635,656.75	62.96	37.04	1,268,022.77	8.33	22.50
Mar	19,439,699.25	12,516,363.00	6,923,336.25	64.39	35.61	1,557,750.66	8.01	22.50
Apr	19,246,956.25	12,367,870.00	6,879,086.25	64.26	35.74	1,547,794.41	8.04	22.50
May	19,979,016.75	12,711,239.25	7,267,777.50	63.62	36.38	1,635,249.94	8.18	22.50
Jun	19,702,128.00	12,398,711.25	7,303,416.75	62.93	37.07	1,643,268.77	8.34	22.50
TOTAL	127,245,164.00	81,030,026.75	46,215,137.25	63.68	36.32	10,398,405.89	8.17	22.50
Jul	21,092,179.75	13,393,654.00	7,698,525.75	63.50	36.50	1,732,168.29	8.21	22.50
Aug	23,386,013.00	14,927,083.00	8,458,930.00	63.83	36.17	1,903,259.25	8.14	22.50
Sep	22,009,303.75	14,292,904.25	7,716,399.50	64.94	35.06	1,736,189.89	7.89	22.50
Oct	24,831,947.75	16,281,773.50	8,550,174.25	65.57	34.43	1,923,789.21	7.75	22.50
Nov	25,720,524.00	16,948,040.50	8,772,483.50	65.89	34.11	1,973,808.79	7.67	22.50
Dec	25,750,452.75	17,264,920.05	8,485,532.70	67.05	32.95	1,909,244.86	7.41	22.50
1991:								
Jan	26,971,222.75	18,219,502.00	8,751,720.75	67.55	32.45	2,187,930.19	8.11	25.00
Feb	27,204,682.75	18,508,572.50	8,696,110.25	68.03	31.97	2,174,027.56	7.99	25.00
Mar	31,847,729.50	21,694,526.75	10,153,202.75	68.12	31.88	2,538,300.69	7.97	25.00
Apr	29,449,869.25	19,293,477.00	10,156,392.25	65.51	34.49	2,539,098.06	8.62	25.00
May	28,370,853.50	18,390,388.25	9,980,465.25	64.82	35.18	2,495,116.31	8.79	25.00
Jun	25,759,386.00	16,538,008.00	9,221,378.00	64.20	35.80	2,305,344.50	8.95	25.00
TOTAL	312,394,164.75	205,752,849.80	106,641,314.95	65.86	34.14	25,418,277.60	8.14	23.84

Source: South Dakota Lottery, 207 East Capitol, Pierre SD.

6-9-91
312,394,164.75
205,752,849.80
106,641,314.95
65.86
34.14
25,418,277.60
8.14
23.84

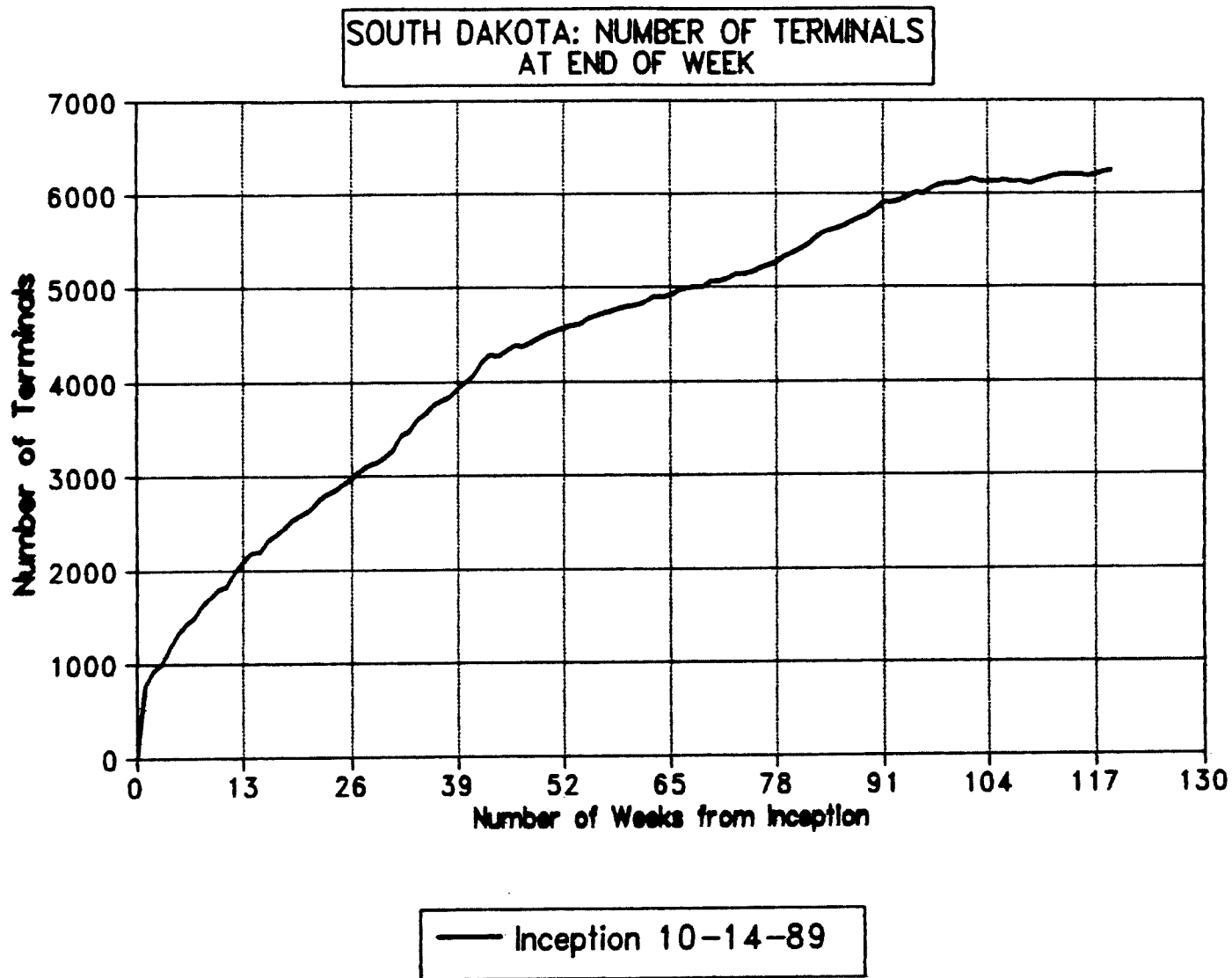
APPENDIX TABLE 2

MONTHLY RECORD OF SOUTH DAKOTA VIDEO LOTTERY AND FISCAL YEAR TOTALS

End of Month	Cash In (Handle)	Cash Out (Prizes)	Net Machine Income (NMI)	Prizes as a % of Cash In	NMI % of Cash In (Takeout)	State \$ Revenue	State % of Cash In	State % Of NMI
1991:								
Jul	29,265,469.25	18,928,833.50	10,336,635.75	64.68	35.32	2,584,158.94	8.83	25.00
Aug	29,516,804.25	19,028,360.25	10,488,444.00	64.47	35.53	2,622,111.00	8.88	25.00
Sep	27,818,985.25	17,820,917.75	9,998,067.50	64.06	35.94	2,499,516.88	8.98	25.00
Oct	29,579,635.75	19,034,929.75	10,544,706.00	64.35	35.65	2,636,176.50	8.91	25.00
Nov	28,777,348.75	18,603,077.75	10,174,271.00	64.64	35.36	2,543,567.75	8.84	25.00
Dec	26,403,990.75	16,834,740.25	9,569,250.50	63.76	36.24	2,392,312.63	9.06	25.00
TOTAL	171,362,234.00	110,250,859.25	61,111,374.75	64.34	35.66	15,277,843.70	8.92	25.00

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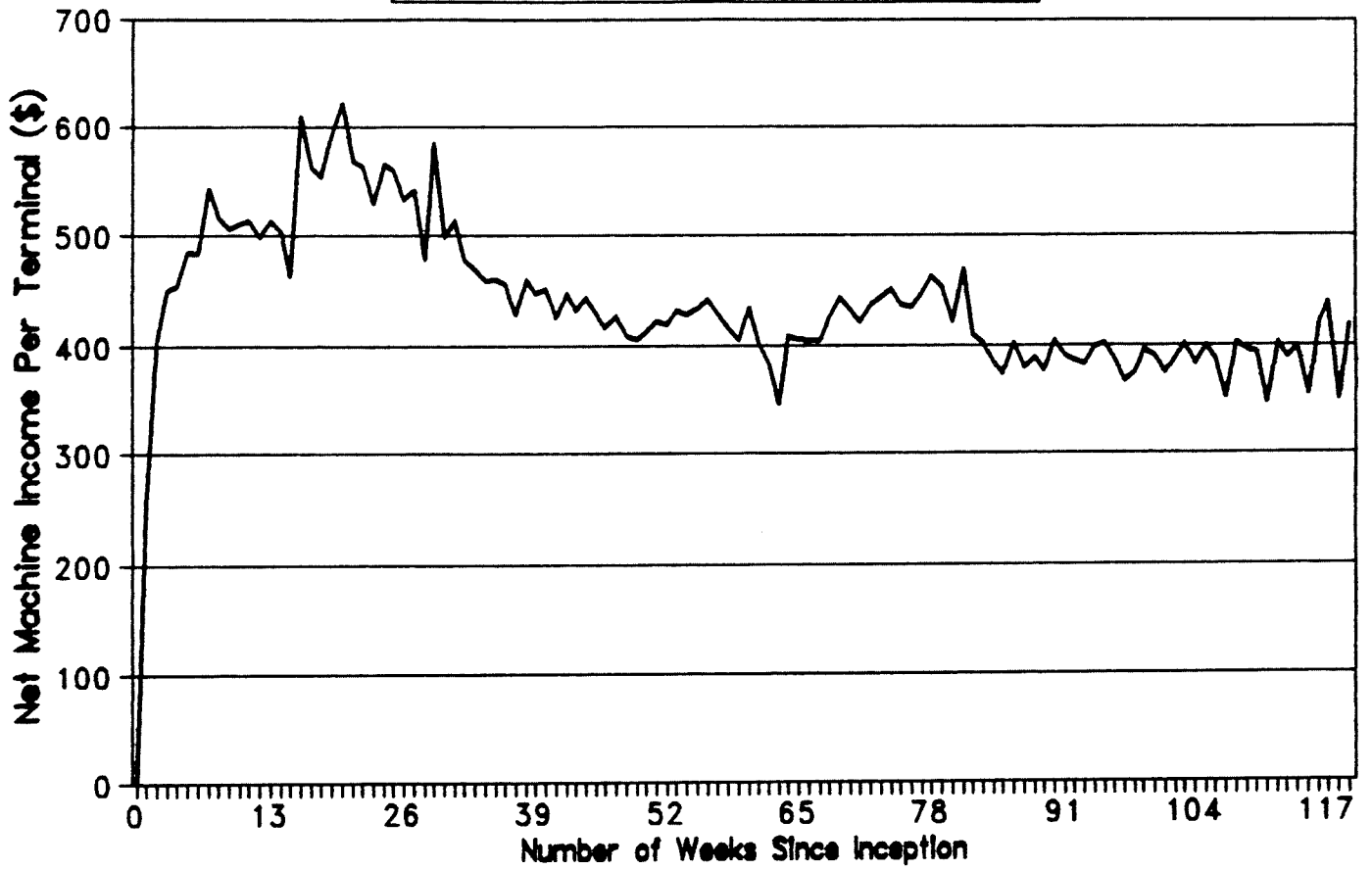
APPENDIX FIGURE 1



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APPENDIX FIGURE 2

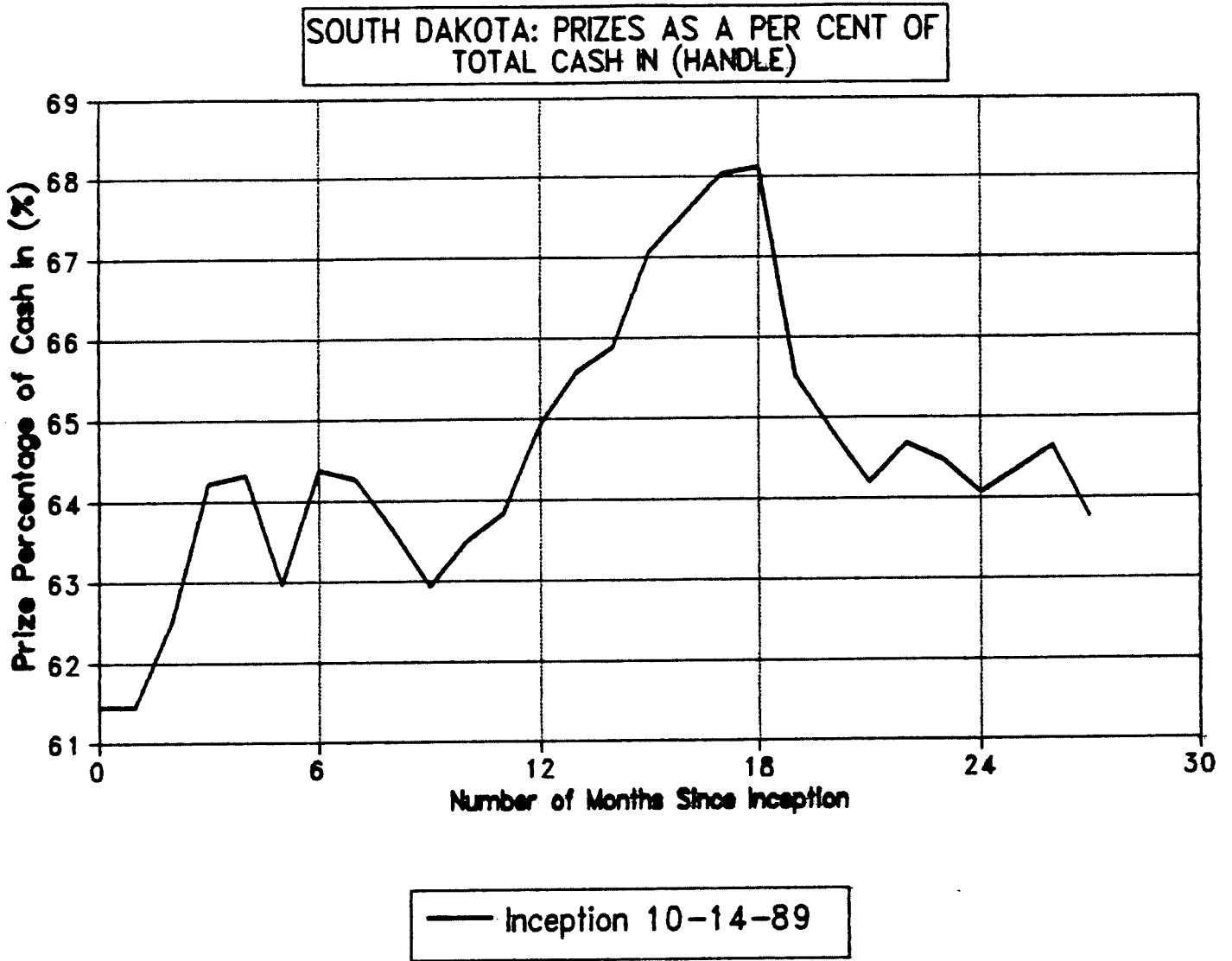
SOUTH DAKOTA: WEEKLY NET MACHINE INCOME PER TERMINAL



— Inception 10-14-89

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APPENDIX FIGURE 3



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LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

500 Bank IV Tower One Townsite Plaza Topeka, KS 66603-3460 (913) 357-6321



A consolidation of the
Kansas State Chamber
of Commerce,
Associated Industries
of Kansas,
Kansas Retail Council

HB 3085

March 5, 1992

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

House Federal and State Affairs Committee

by

Jim Edwards

Director of Chamber and Association Relations

Madam Chair and members of the Committee:

Good afternoon, I am Jim Edwards, Director of Chamber and Association Relations for the Kansas Chamber of Commerce and Industry, and I appreciate the opportunity to appear before you today to support the extension of the Kansas Lottery through the passage of HB 3085.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

*House Federal & State Affairs
March 5, 1992
Attachment #10*

When the voters of the state of Kansas approved the constitutional amendment permitting a state-owned and operated lottery by almost 65%, it was evident that a majority of Kansans not only wanted an alternative form of entertainment but were willing to provide additional funds for the state to use in the areas of economic development, county reappraisal cost reimbursement, and a building fund for state prisons. What has changed since that November election and the subsequent start of the lottery? You still find Kansans enjoying the lottery as a form of entertainment and they are still providing needed funds for worthwhile state programs.

In the area of economic development, you will find that over \$50 million has been made available for state, county and local efforts since the lottery's start. Counties also received needed dollars for the initial startup costs for reappraisal as well as funding for subsequent years' efforts. In addition, Kansas also was able to generate needed dollars for a prison building fund without looking to a new tax or redistributing General Fund revenues.

Going back to the question of what has changed since the lottery passed it would be sufficient to sum it up in one sentence. New dollars have been generated for needed programs with voluntary contributions. With this in mind, we would wholeheartedly recommend that you continue the operations of the Kansas Lottery and allow persons to continue this alternate form of entertainment while producing needed revenues.

Thank you once again for the opportunity to appear before you today and I would stand for questions.

**WRITTEN TESTIMONY TO
THE
HOUSE FEDERAL AND STATE
AFFAIRS COMMITTEE**

March 5, 1992

Written Testimony by:

William G. Brundage, Ph.D.
President of
Kansas Technology Enterprise Corporation

*House Federal & State Affairs
March 5, 1992
Workman # 11*

KTEC
Written Testimony to the House Federal and State Affairs
Committee
HB 3085

Due to a previous presentation scheduled in Garden City, I am unable to appear before your committee today. As you are aware, the Kansas Technology Enterprise Corporation is one of the recipients of Economic Development Initiatives Fund (lottery) monies. I am neither an advocate or adversary of the lottery, but simply wish to provide you with one of the best examples of what's being accomplished with lottery dollars.

The future of any state's or nation's economy has to be based upon a solid foundation of science and engineering. Scientists and engineers create technologies and innovations that spur nations ahead. One cannot overemphasize the importance of the resulting technologies and their ultimate entry into the marketplace. Moreover, the technology transfer and commercialization of these technologies does not happen automatically. A formal process is absolutely necessary.

KTEC is achieving its mission and moving technologies to the marketplace. It is possible that without the additional revenues raised by the lottery and specifically earmarked for economic development, KTEC would not have been created.

During the past four years, KTEC has received \$22.5 million from the State's Economic Development Initiatives Fund. These monies represent a tremendous investment in Kansas' future. The State is receiving a return on that investment. Please review the page in your handout entitled "Accumulative Results."

Over the years, KTEC has leveraged every dollar invested by the State. Matching dollars for our various programs have reached \$50 million. That's a total of \$72.5 million to promote technology economic development in Kansas. But, what are the results?

We think our results are impressive. Company start-ups, increased sales, new jobs, new patents, all point to a more solid economic base for Kansas and Kansas' industries. On July 1, our Return on Public Investment Model (ROPI) will be completed and ready to implement.

ROPI, which is being developed by the Institute for Public Policy and Business Research at the University of Kansas, is a "first in the nation." When this model is applied to our summary data, we will know what the true economic impact of our summary data is to the State in tax revenue, salaries, industry growth, etc.

As I said earlier, I am not here as an advocate of the lottery nor as an adversary of the lottery. I am here as an advocate of the mission and goals of the Kansas Technology Enterprise Corporation which is funded almost entirely by lottery monies.

HF 35A
3/5/92
11-2

Kansas Technology Enterprise Corporation

TABLE OF CONTENTS

- I. Accumulative Results
- II. Fact Sheet
- III. 1992 Activities

I. Accumulative Results

HF 32A
3/5/92
11-4

KTEC Summary Report

Accumulative investments, leveraged monies, and results from KTEC initiatives.

All Programs through June 1991

KTEC Investment: \$22.5 million

Leveraged with:

\$24.3 million in industry funding

\$14.1 million in federal funding

\$11.5 million in venture capital

\$.1 million institutional funding

Total: \$50 million

Results:

49 company start-ups

25 company expansions

463 industry employees trained

\$17.2 million in increased sales

3,316 jobs created

100 new technologies

61 patents issued

138 inventors assisted

45-757A
3/5/92
H.S.

II. Fact Sheet

H-1
6/15/92
11-6

KANSAS TECHNOLOGY ENTERPRISE CORPORATION (KTEC)

112 West Sixth, Suite 400, Topeka, KS 66603; (913) 296-5272

MISSION:

To create and maintain employment by encouraging entrepreneurship, stimulating the commercialization of new technologies, and promoting the creation, growth and expansion of Kansas businesses.

HISTORY:

- 1983 Kansas Advanced Technology Commission (KATC)
Established within the Department of Economic Development
 - 1986 Kansas Technology Enterprise Corporation (KTEC)
Created by the Kansas Legislature; established as a state-owned corporation
 - 1987 KTEC became operational
-

WHY WAS KTEC CREATED?

The Kansas Legislature and the Executive Branch joined forces to create KTEC because the technological needs of Kansas businesses required a new and more appropriate way in which to make them more competitive on a global scale.

Specific reasons:

- To provide scientific and engineering leadership;
 - To remove technological, institutional and economical barriers to business expansion;
 - To blend the cultures of academia, the private sector and government;
 - To better address the needs and potentials of the Kansas business community;
 - To operate like a business with the capability to be responsive in a timely manner;
 - To use technology to modernize and diversify the State's economy;
 - To establish credibility with business and academia;
 - To transcend political boundaries; and
 - To address unique accountability and management requirements.
-

EFFECTIVE ADMINISTRATION AND LEADERSHIP:

KTEC is administered by eight staff members and a 16-member Board of Directors representing the private sector, government and academia. We have been effective because:

- enabling legislation allows KTEC to operate like a business, yet maintain all of the controls necessary when utilizing public funds.
 - true leadership is provided by those experienced in science, academia and the business sector.
 - KTEC's FY 1991 operations budget was held to approximately 10% of its overall budget.
 - KTEC is performance-driven.
 - KTEC is one of the most cost-effective government agencies in Kansas and among its counterparts in other states.
 - This is documented by an in-depth evaluation executed by the National Association of State Development Agencies (NASDA), Washington, D.C. Their report stated that "KTEC offers one of the most comprehensive and sophisticated technology development programs in the country."
-

DYNAMIC PUBLIC/PRIVATE PARTNERSHIPS:

The complexity and cost (both in human capital and technology) of competing globally demand partnerships between government, academia and the private sector. These partnerships, through leveraging of resources, allow the state and the nation to be competitive.

Through these public/private partnerships KTEC has established an effective and unique network that capitalizes on scientists, engineers, financiers, accountants, marketers, and various academic and government agencies.

With limited resources, these partnerships are the most cost-effective manner in which to achieve this economic development goal.

HF/SA
3/3/92
11-7

THOROUGH ACCOUNTABILITY:

In all probability, KTEC is more accountable for its activities than any other state agency.

For example, the following are required:

- 16-member board of directors.
- audits performed by the Division of Post Audit at their discretion.
- annual audit by private accounting firm.
- evaluation criteria for all KTEC programs.
- peer review by some of the nation's best managers of technology development programs.
- oversight by Kansas Inc.
- a business plan with an update completed through the Strategic Planning process.
- all funds processed through Division of Accounts and Reports.
- annual budget must be prepared as requested by the Division of Budget (performance indicators included).
- regular reports to the Legislative Economic Development Committees.

Other activities which demonstrate accountability:

- Strategic Planning - professional assistance provided by IBM and Dr. Warren McFarland of the Harvard Business School. KTEC's plan should be finished by July 1, 1992.
- Return on Public Investment (ROPI) - KTEC has contracted with the Institute for Public Policy and Business Research at the University of Kansas to complete a Return on Public Investment model. This will allow KTEC to evaluate the impact of its programs on the State's economy.
- Committees - Advisory committees comprised of experienced individuals from business and government, assist KTEC with reviewing and making recommendations concerning its grant and Center programs.
- Tracking System - KTEC has developed a computerized system that enables it to manage information pertaining to the Centers of Excellence and grant programs—including the capability to track a company's progress long after completion of a project.

INNOVATIVE INITIATIVES:

The Innovative Technology Enterprise Corporation (ITEC) grew out of a Special Project funded by KTEC. ITEC is serving the needs of inventors and entrepreneurs with a variety of fee-based services and seminars.

The Mid-America Manufacturing Technology Center (MAMTC) was created following KTEC's receipt of a \$12.9 million, six-year grant from the National Institute of Standards and Technology. The Center will work closely with more than 2,600 small and mid-sized manufacturers in Kansas and the Kansas City metropolitan area.

POSITIVE RESULTS*:

Investments:

State of Kansas investment--\$22.5 million;
Leveraged with \$50 million in industry and federal funding;

Results:

\$17.2 million in increased sales for Kansas companies;
49 company start-ups through KTEC assistance;
25 company expansions;
3,316 new jobs created;
100 new technologies developed at our Centers or through our grant programs;
61 patents.

*Through June 1991.

III.1992 Activities

HFSA
3/5/92
11-9

Centers

The Centers of Excellence are beginning the process of implementing a structure that will allow them to further leverage KTEC funding, involve more research faculty and work with a greater number of Kansas businesses. They intend to become more involved in giving direction to Kansas' economic development initiative.

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HFSA
3/5/92
11-10

KTEC's 1992 Activities

Return on Public Investment

The Institute for Public Policy and Business Research at the University of Kansas is developing a Return on Public Investment (ROPI) model so that KTEC can evaluate the economic impact of its programs. The ROPI steering committee includes: Sen. Dave Kerr; Sen. Janis Lee; Rep. Bob Mead; Rep. Dave Heinemann; Rep. George Dean; Rep. Diane Gjerstad; Bud Grant, KCCI; John Moore, Cessna; Jack Pierson, Preco; and Jarvin Emerson, KSU.

Third Party Review of Position Descriptions

KTEC has contracted with Ernst & Young to evaluate staff positions, and review office procedures. KTEC's staff of eight is committed to the best possible management of Kansas' investment.

Strategic Planning

By June 30, KTEC will complete its strategic plan.

Public Information

In an effort to increase the public's knowledge of KTEC, we have contracted with an individual to serve as KTEC's Public Information Director.

Telecommunications

State-of-the-art telecommunications in Kansas has been promoted by KTEC for several years. This special project began as a consortium of providers and users who worked together to design and establish a network easily accessible by business, education, the medical community and government. The project management committee includes: Andy Scharf, Division of Information Systems and Communications (DISC); Russ Phelps, Southwestern Bell Telephone; Barbara Paschke, Kansas Board of Regents; and David Brevitz, Kansas Consolidated Professional Services.

Commercialization

KTEC is embarking on a more formal and disciplined process of commercializing technologies. Executives on loan from industry will provide expertise in financing, management and marketing of new technologies and assist the vice president of commercialization to this end.

Industrial Agriculture

KTEC has earmarked \$100,000 to promote industrial agriculture in 1992. This investment will allow Kansas to pursue industrial opportunities, create a capacity for fund management of public/private portfolios, begin the process of becoming a Regional Center, and ultimately enhance Kansas' opportunity to benefit from federal allocations for such efforts. KTEC is working on this project with the Board of Agriculture, the New Uses Council, and the Kansas Value-Added Center.

573-A
3/5/92
11-11

TESTIMONY ON HOUSE BILL 3085

House Committee on Federal and State Affairs
March 5, 1992

by
Charlene Wilson
Director of Communications
Kansas Area United Methodist Church

Madam Chairman and Members of the Committee:

Thank you for the opportunity to appear before your committee today. I am Charlene Wilson, Director of Communications and Interpretation for the Kansas Area United Methodist Church, here on behalf of Bishop Kenneth Hicks who was unable to attend the hearing today due to prior commitments in Wichita. I appear before you in opposition to House Bill 3085, which would extend the lottery to July 1, 1995.

The United Methodist Church opposes all forms of gambling. The *Book of Discipline* of the United Methodist Church, which is the fundamental book outlining the law, doctrine, administration and organizational work and procedures for the United Methodist Church, clearly states that "gambling is a menace to society, deadly to the best interests of moral, social, economic, and spiritual life, and destructive of good government..." It goes on to say... "Community standards and personal life styles should be such as would make it unnecessary and undesirable to resort to commercial gambling, including public lotteries, as a recreation, as an escape, or as a means of producing public revenue or funds for support of charities or government."

We stand firm on the belief that gambling can be destructive

House Federal & State Affairs
March 5, 1992
Attachment # 12

to human nature, and for this reason not only oppose gambling but also oppose this legislation which would extend the existence of the lottery in the State of Kansas beyond the original sunset of July 1, 1992.

Gambling is viewed by many as a legitimate source of income for state governments, and for that reason legalized gambling has increased significantly over the past decade. However, concurrent with that increase is the reality that the primary social cost of this growth of legalized gambling has been the creation of a new generation of compulsive gamblers.

While many consider gambling to be a harmless form of recreation, undeniably some people become caught in the vicious cycle of compulsive gambling, often times with devastating consequences.

Furthermore, self-destructive gambling behavior is not restricted only to adults. We all know that adolescents are particularly vulnerable to developing addictions, of which gambling is one. Dr. Durand Jacobs, an authority on adolescent gambling was quoted in the late 80's stating that "by the '90s gambling will be the major form of teen recreation in the U.S. and it will also be the major addiction."

According to the American Psychiatric Association, gambling has been identified as the fastest growing and most neglected form of addiction in the U.S. today - another fact which cannot be overlooked as you debate this bill. Several states that also have legalized gambling, have found that it does produce harmful consequences for certain players, and they are now finding it

HF 35A
3/5/92
12-2

necessary to make efforts to help the victims of compulsive gambling addictions. It seems somewhat irresponsible to extend the opportunity for gambling in Kansas knowing full well that it will be destructive to some for whom we will then find it necessary to provide funding for rehabilitation programs.

In closing, we appreciate the position you are in with regard to the task of finding ways to support government programs, however we do not feel legalized gambling is a responsible nor legitimate source of this funding. We ask that you look beyond the dollars the lottery raises -- look beyond to the human factor that is also a very real part of the equation. Are the dollars the lottery generates really worth more than the victims and the families of the victims that may be destroyed as the result of the consequences of gambling?

HF 35A
3/5/92
12-3