

Approved

MARCH 4, 1992

MINUTES OF THE SENATE COMMITTEE ON FEDERAL AND STATE AFFAIRS.

The meeting was called to order by Sen. Edward F. Reilly, Jr. at 11:00 a.m. on February 25, 1992 in Room 254-E of the Capitol.

All members were present except:

Committee staff present:

Mary Galligan, Legislative Research Department
Mary Torrence, Office of Revisor of Statutes
Jeanne Eudaley, Committee Secretary

Conferees appearing before the committee:

See list attached

Others attending: See attached list

Senator Reilly called the meeting to order and introduced three pages from his district. He then called the committee's attention to SCR 1638 and introduced Dr. Bill Brundage, President of Kansas Technology Enterprise Corporation, who spoke in opposition to SCR 1638 (Attachment 1).

The following presented testimony as proponents to SCR 1638:

Kenda Bartlett, Area Representative, Concerned Women for America, (Attachment 2);
Rob Gaskell, Chairman, People Against Casinos (PAC), (Attachment 3);
Christine Schuckmann, Blue Springs, MO., Ex-Gambler, (Attachment 4);

The following presented testimony as opponents to SCR 1638:

Jim Edwards, Kansas Chamber of Commerce and Industry, (Attachment 5);

Carole Morgan, Deputy Secretary, Kansas Department of Commerce, (Attachment 6);
Jonathan Small, representing Kansas Automatic Merchandising Association, Inc., (Attachment 7);
John Bottenberg, representing Video Lottery Consultant, Inc., (Attachment 8);
Ralph Decker, Executive Director, Kansas Lottery, (Attachment 9);
Ted Ayres, General Counsel, Board of Regents, (Attachment 10);
Nick Roach, Director of Corporate Accounts, Barbee and Associates, (Attachment 11).

The Chairman reminded the committee that tomorrow we will hear SCR 1639.

Meeting adjourned at 12:00.

GUEST LIST

COMMITTEE: Senate Federal & State Affairs

DATE: 2-25-92

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Bob Sherburne	Topeka	Tapesnow Inc.
Kenda Battelt	Leavenworth	CWA of KS
Bill Young	Valley Center KS	CWA of KS
Mrs. Ruth Decker	Topeka	Battery Chesapeake
Jim Edwards	Topeka	ICCI
Nick Roach	Topeka	IGT
George Barber	Topeka	IGT
L. Kenneth L. Sutton	Topeka	Kansas Lottery
Diane W. Eit	K.C.	observer
Fareeda Eddy	J.M., KS	observer
Stacia L. Charles	Lawrence, KS	People Against Casino
Vera E. Schilling	" "	" " "
Carole Miraman	Topeka	Ks. Dept of Commerce
TED D. AVRES	TOPEKA	KANSAS BOARD REGENTS
Sue Peterson	MANHATTAN	KANSAS STATE UNIVERSITY
J P Small	TOPEKA	TOPEKA KAM
Patrick Hurley	Topeka	CTECH
Alvin Carter	Topeka	Pete McGill & Assoc.
James Young	Valley Center KS	Community College
Gary Reser	Topeka	Governor
Carol McDowell	Topeka	Kansas City
Bill Krumholz	Topeka	KTEC
Ray Hauke	Topeka	Board of Regent
Ruth Decker	Topeka	Kansas Lottery
Carl Anderson	Topeka	Kansas Lottery

Attach. 1

PRESENTATION TO
THE
SENATE FEDERAL AND STATE
AFFAIRS COMMITTEE

February 25, 1992

Presentation by:

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

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KTEC
Testimony to the Senate Federal and State Affairs Committee
SCR 1638

Good morning. I am William Brundage, President of the Kansas Technology Enterprise Corporation. As you are aware, KTEC is one of the recipients of Economic Development Initiatives Fund (lottery) monies. I am here, not as an advocate or adversary of the lottery, but simply 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 do 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.

Thank you.

Kansas Technology Enterprise Corporation

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I. Accumulative Results

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

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II. Fact Sheet

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.

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

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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.

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.

ATTAC 2



Concerned Women for America

370 L'Enfant Promenade, S.W., Suite 800 Washington, D.C. 20024 (202) 488-7000
P.O. Box 46 Leavenworth, KS 66048 (913)682-8393

Beverly LaHaye
President

Kenda Bartlett
Kansas
Area Representative

25 February 92

SENATE FEDERAL AND STATE AFFAIRS COMMITTEE
Senator Edward F. Reilly, Jr., Chairman
SCR 1638

Mr. Chairman, Concerned Women for America of Kansas rises today in support of SCR 1638.

Over the last weeks as we have attended the various hearings on the issue of gambling in the state of Kansas, it has become increasing clear that no one really knows what the law provides for and what it does not include. On the one hand, we have the Attorney General's opinion that says gaming of all types is legal, and on the other hand, I have heard the opinions of people across this state that say they did not believe the intent of the vote in 1986 was to open the state to each and every kind of gambling.

How are you as legislators to know what the intent of the law was and what the intent of the people of the state was? We believe that the only way to answer both of these questions is to return this issue to the people of the state of Kansas and let them make their intentions known. They should be given the chance to send to you, the Legislature, a very clear answer to these questions. How they will vote is anyone's guess, but we feel they should be given the opportunity to do so.

It will be the responsibility of the citizen to learn the particulars of this issue and vote intelligently. I am sure that there will be no lack of people and organizations who will make every effort to see that the people are informed about the issue.

CWA of Kansas would ask that you report SCR 1638 favorably. Thank you.

Kenda Bartlett
Area Representative

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TESTIMONY TO SENATE FEDERAL AND STATE AFFAIRS COMMITTEE

Presented by Rob Gaskell, Horton, KS

Feb. 25, 1992

Chairman Reilly, and distinguished senators of this committee: First of all, let me relay to you the wish of a man unable to be here today on account of a back ailment, The Rev. Richard Taylor. Please, then be advised that the organization "Kansans For Life At Its Best" wholeheartedly supports this resolution and requests your affirmative action on it.

I, too come in support of SCR 1538. Since its inception, the Kansas Lottery has continually attempted to keep one step ahead of player apathy by introducing new and different forms. Still, the expected revenue falls. Currently, the \$20 million annual estimate, veritable pocket change in comparison to the State budget, would be allegedly boosted if the distinguished lottery director, Ralph Decker, and his staff were to have their way and add video lottery in outlets all over Kansas. It would be expected that for an enterprise such as this to survive, it would need to evolve and grow.

But, at what cost? I feel it is time to strictly evaluate where we are going with this. How long will we spend millions in advertising hitting the people of Kansas over the head with the idea that somebody's always winning. What people find when they do play it is, they lose. Revenues go down. But wait! Another new idea will surely save it. The only problem, the prospect of this next step, video lottery, tends to entice our young people into early addiction. Instant gratification and a great comfort level with it are but 2 reasons cited by Mr. Decker in a published interview of

January 29 in the local newspaper. This line of thinking flies in the face of efforts by any and all to instill a strong work ethic in young people. The \$84 million (appx.) amount spent by Kansans on lottery tickets, if spent instead on goods and services on main street would more than make up for lost lottery revenue. The reason being this money turns over in the community, taxes being collected each time. Also, a fraction of a cent sales tax on each dollar would be viable as an alternative, and we would support such.

It also appears to be a whole new ballgame with regard to casino gambling. As in other parts of the country, it has exploded here in Kansas.

It is time we went back to the people on this. It's like we have been, as a state, "dating" the lottery for over 5 years, and now as we consider whether or not we want to go the whole way to more full blown types of gambling, we need to go back to the people, and trust the people of Kansas to make a more informed decision. In fact as I recall, Mr. Chairman, this was a point of reasoning in the promotion of the original lottery amendment in 1986 by Senator Steiniger, yourself, and others. I respectfully request, Mr. Chairman, that this resolution be allowed that trust just as it was in 1986.

Thank you very much for your time today.

Robert L. (Rob) Gaskell
Horton, KS
Chairman, People Against Casinos

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ATTACH 1C

Christine M Schuckmann
400 Keystone Ct.
Blue Springs, Mo. 64014
816-228-3758

Dear Senate,

My name is Christine M. Schuckmann. I am a Housewife, Subt Teacher and Mom. I hope to start Real estate School on March 2, 1992. I am also an EX- Gambler. I am not proud of what I did, but I am proud of what I have been trying to do since I became an activist almost one year ago. I have not gambled for almost 4 years now.

I started gambling after the loss of my six month old son to a drunk driver in Oct of 1978. At first I gamble just once or twice a month, mainly at Bingo, later at The Lotto and Pick three when it became legal in Missouri on Jan 1986, after it had been approved by the Mo. voters on Nov, 1984.

I played Bingo to escape the Pain and Loss of Joey's death, and as I became more addicted to the game it was all I wanted to do day and Night. At my worst I played Bingo every day and at least 3 or 4 times at night each week.

Compulsive gambling is an Illness! It is just like Drug addiction or Alcohol Abuse, they both destroy the person and their family and home life. Dr. William Custer studied compulsive gambling for over 30 years, He concluded that there is a chemical reaction in the brain that causes a gambler to get this emotional high just as one recieves from drugs or alcohol.

Not everyone gets this kind of reaction of course but as it is known that this affects over 15 to 20 million Americans each year. I would like to see every State that has a Lotto set aside at least one percent of their proceeds to build Rehab centers for the Compulsive Gambler and their families.

I would love to see Gambling outlawed as well, but I know this will never totally happen any more than Drugs or Alcohol will be forever banned. So I believe in Education of our young people in letting them know what can and will happen to a Compulsive gambler. I feel that every school in every state should teach a course on what Gambling is and it's side effects.

At my worst I spent between \$15,000 to \$ 30,000 dollars in a six and one half years of gambling. No true gambler ever really knows just how much they spend for they do not keep

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track for the news of their losses would be to painful to admit to anyone especially their families.

I went to G.A for three years but I wanted to become an activist to try and slow down the wave of Gambling that has hit America. Gambling has not helped the schools nor has it stopped several states from raising taxes anyway. Take Mo for example, the Schools are in trouble and we face a \$485 million dollar deficit and they are talking to raise taxes again, Tell me How did the Lotto help our schools and where is all that money from the Lotto going to if it is not helping our state?

I just hope my message will do some good and try to make you all realize that there has to be a better way to raise money for our states than to sponsor an addiction that will cause more problems than it will solve!!

Thanks for your time and trouble in listening to me today
Dear Senators.

[Faint signature]

Attach.

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

SCR 1638

February 25, 1992

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Federal and State Affairs Committee

by

Jim Edwards

Director of Chamber and Association Relations

Mr. Chairman and members of the Committee:

I am Jim Edwards, Director of Chamber and Association Relations for the Kansas Chamber of Commerce and Industry. I appreciate the opportunity to appear before you today to express KCCI's opposition to SCR 1638, which proposes to amend the Kansas Constitution and prohibit a statewide and state-operated lottery.

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.

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After the Legislature approved the issue in 1986 and presented it to the voters in Kansas, approximately 63 percent of those voting said "Yes, we want a lottery in Kansas." Since that time, more than \$50 million has been generated for the EDIF, one of the elements of the State Gaming Revenue Fund. In addition, many millions were also made available for Kansas counties to assist them with their costs of reappraisal as well as helping to fund a state prison building fund.

What the lottery has basically done is provide funding for various worthwhile projects in Kansas that otherwise would have been competing for existing or new General Fund revenues.

I thank you for the opportunity to appear before you today and would urge you to kill this resolution. I would stand for questions.

Attach. 1

**Testimony on SCR 1638
Amendment on Authority for a State-Owned and Operated Lottery**

**Presented to the
Senate Federal and State Affairs Committee**

**by
Carole Morgan
Deputy Secretary
Kansas Department of Commerce**

February 25, 1992

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Testimony on SCR 1638

Amendment on Authority for a State-Owned and Operated Lottery

As a representative of the Kansas Department of Commerce, I would like to express our opposition to Senate Concurrent Resolution 1638 which would enable the state to repeal the authority for a state-owned and operated lottery.

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.

For the Department of Commerce, EDIF appropriations total just over \$8 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 and parimutuel wagering amendments were repealed, it would appear that the state's economic development programs would have to be significantly curtailed at a time when we need to continue the momentum we have gained over recent years.

We are appearing before the Committee in opposition to SCR 1638, but we would also like to note our opposition to SCR 1639 which would allow the possible repeal of the constitutional authority for parimutuel wagering in Kansas. This side of the gaming issue has had a significant impact on the state's travel and tourism industry in terms of visitors as well as funds to help promote these attractions. Both of these resolutions are linked to the success and strength of the Economic Development Initiatives Fund as well as to the economic future of Kansas.

Thank you for the opportunity to appear before you today in opposition to these resolutions.

JONATHAN P. SMALL, CHARTERED

Attorney and Counselor at Law
Suite 304, Capitol Tower
400 West Eighth Street
Topeka, Kansas 66603
913/234-3686

February 25, 1992

Re: Senate Concurrent Resolution No. 1638

Mr. Chairman and members of the committee:

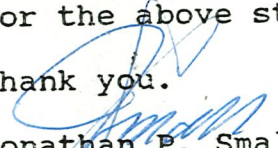
I represent the Kansas Automatic Merchandising Association, a non-profit Kansas Association which represents about ninety (90) Kansas businesses and approximately twelve hundred (1,200) employees. It is principally interested in bringing video lottery to the Kansas Lottery's array of games.

KAMA believes favorably pursuing SCR 1638 at this time is premature for the following reasons:

1. No apparent evidence that a majority of Kansan's desire to re-vote the amendment to the Kansas Constitution so soon after it was favorably approved six years ago;
2. The Kansas Lottery provides over \$20,000.00 annually for state funded projects such as education and economical;
3. The Kansas Lottery stands poised with the Legislature's blessing to bring an additional fifty (50) to seventy five (75) million dollars, into the state treasure through video lottery;
4. The Kansas people appreciate and enjoy the state lottery as last year's record sales will reflect; and
5. The lottery program in this state is operated in a clean, efficient and entertaining manner to the obvious enjoyment of thousands of Kansans just as was envisioned by the majority of citizens who voted in favor of the amendment from the beginning.

For the above stated reasons we ask you to not approve SCR 1638.

Thank you.


Jonathan P. Small
Attorney and Lobbyist
Kansas Automatic Merchandising Association, Inc.

BOTTENBERG & ASSOCIATES

Attach. 8

JOHN C. BOTTENBERG

Statement of
Video Lottery Consultants, Inc.

Presented to the Senate
Federal and State Affairs Committee
The Honorable Edward F. Reilly, Jr, Chairman

Statehouse
Topeka, Kansas
February 25, 1992

Mr. 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 reject SCR 1638 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

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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 reject SCR 1638.

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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.

Manufactured By:

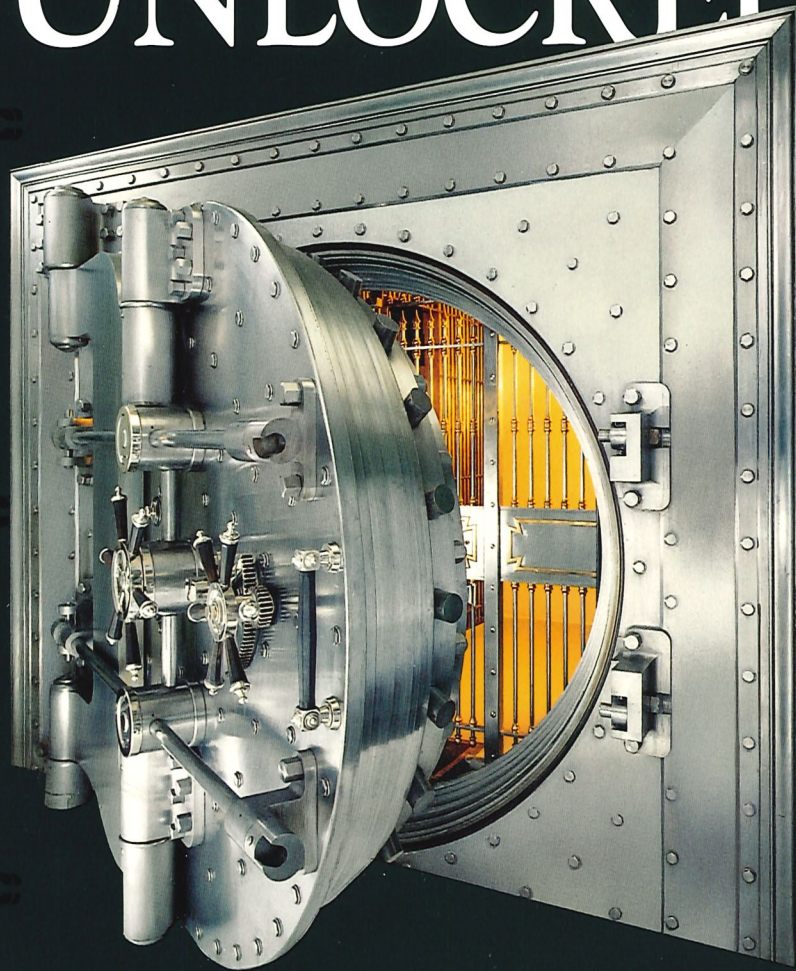
VIDEO LOTTERY CONSULTANTS, INC.

2311 South 7th Avenue Bozeman, MT 59715 PHONE: 406/586-4423 FAX: 406/586-8211

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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WE
UNLOCKED



THE FUTURE
OF
LOTTERY



By 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.

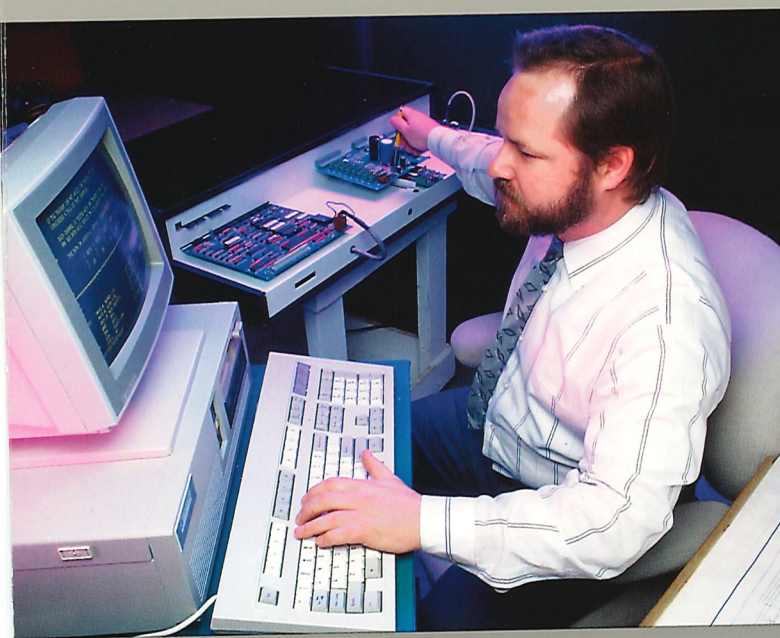
VLC's accounting and audit process eliminates paper reports and random audits and offers, instead, maximum security and control from the comfort of your office.



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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

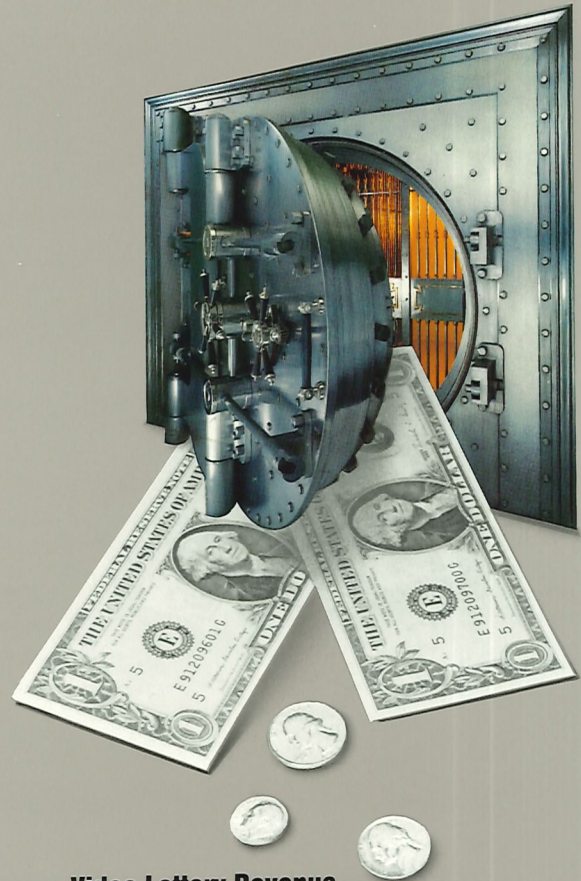


Commitment to Tomorrow

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.**

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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.

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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.



A.H. 8
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REVENUE
YOU CAN BANK ON...
SECURITY YOU CAN
TRUST



Att 8
8



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VLC, Inc., 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, New Brunswick, Newfoundland, Nova Scotia and Prince Edward Island. VLC manufactures Video Lottery Terminals (VLTs) for all these markets and designed, built and installed the central control systems used in South Dakota and the Canadian Provinces.

Video Lottery Consultants, Inc., has spent six years and devoted millions of dollars to the development and enhancement of the world's first comprehensive Video Lottery 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 6,000 VLTs currently serving the sixteen month old South Dakota Video Lottery, approximately 60 percent were built by VLC. In Atlantic Canada, VLC VLTs constitute the majority of the VLTs on the new system operated by the Atlantic Lottery Corporation since December 1990. In addition, about 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 only actual Video Lottery experience and knowledge available. No other company has demonstrated a system expressly designed to provide the security, control and reporting necessary for a government operated Video Lottery. We are pleased to share this experience and to assist any jurisdiction considering Video Lottery.

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A PRIMER TO VIDEO LOTTERY

Prepared
by

VIDEO LOTTERY CONSULTANTS, INC.

For

LEGISLATIVE, EXECUTIVE AND REGULATORY OFFICIALS

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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 and Montana and the Canadian provinces of New Brunswick and Newfoundland, 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 5,000 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 on to businesses licensed for on-premise consumption of alcoholic beverages.

New Brunswick and Newfoundland

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 New Brunswick operations from those of Newfoundland without duplicating computer hardware.

The system is designed to allow easy addition of the provinces of Nova Scotia and Prince Edward Island, Also clients of the Atlantic Lottery Corporation, should the provinces decide to implement video lotteries.

In New Brunswick, all VLTs are owned and serviced by coin operators under an agreement with the New Brunswick Lotteries Commission. Placement is restricted to five machines in a business licensed for on-premises consumption of alcoholic beverages and two machines in convenience stores. In Newfoundland, all VLTs are owned and serviced by the Atlantic Lottery Corporation itself.

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 a guaranteed fixed minimum payback percentage, random game play and the electronic and paper recording of accounting and operating data.

Full public accountability is achieved through a comprehensive central control system which accounts for and audits every quarter, credit and game played, won or lost. All data is communicated directly to the system without opportunity for corruption. 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. \$100-\$125 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 (25% 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 "on-line" lotto terminals for the same market. And, where conventional on-line 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 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 a 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.

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 evening, 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 5,000 game terminals are currently enrolled on the system and significantly more growth can be accomodated 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.

At least nine 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) is the first, and only, supplier of a proven and implemented state-wide Video Lottery accounting, security, control and communications system.

The VLC dial-up system, which operates on an IBM System/88 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 System/88, 4576 Processor Model 83 mainframe, as a regular part of its on-going lottery operations. The system has completed twenty-one 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 5,800 terminals currently on the system. As the industry's only operational dial-up lottery control system, the VLC system operates at a fraction of cost of a comparable on-line (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 games 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 eight months of operations.

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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.

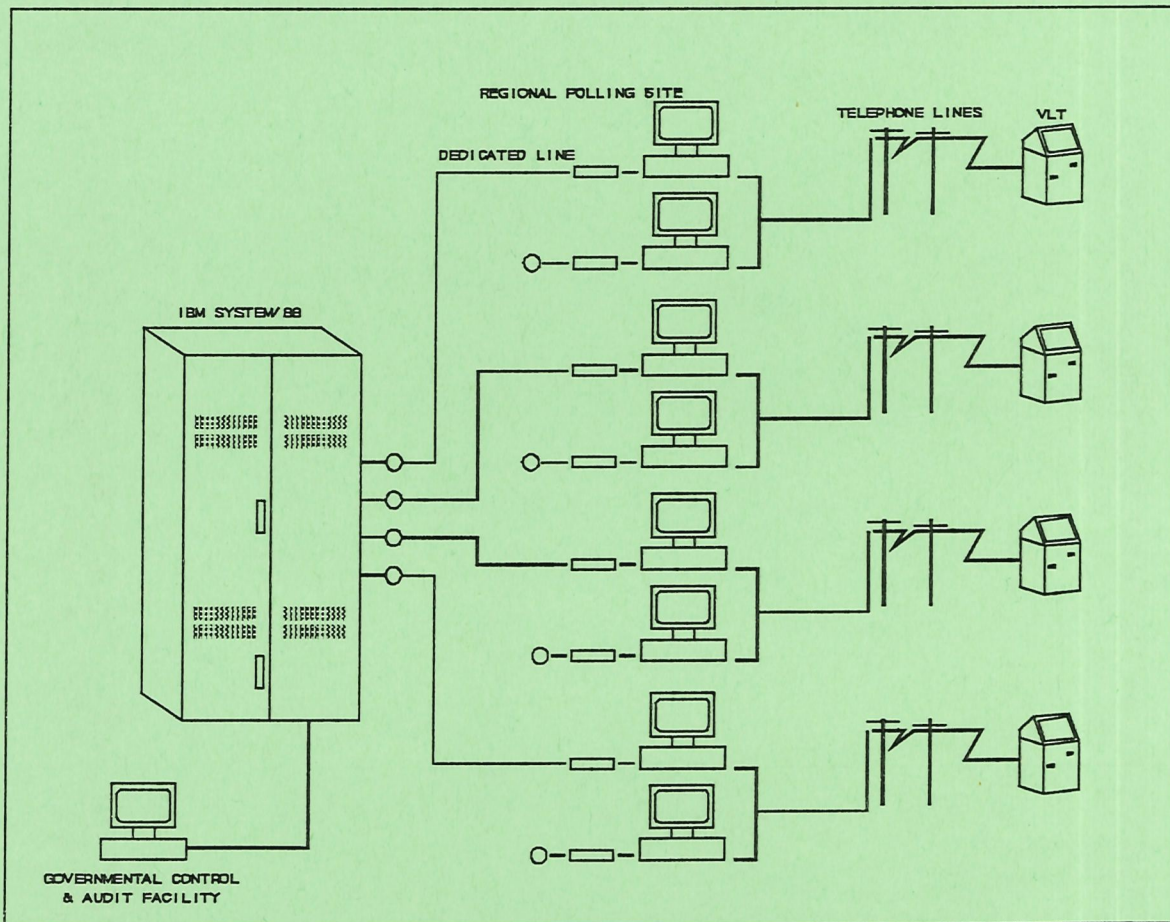
System Sizing, Expansion and Components:

The VLC system was designed around the IBM System/88 family of fault-tolerant mainframe computers. Our system software will operate equally well from the smallest System/88 mainframe, which controls up to 1,000 terminals, to an intermediate multi-module System/88 which controls 120,000 to 210,000 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/88 modules are added via the System/88 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 System/88 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

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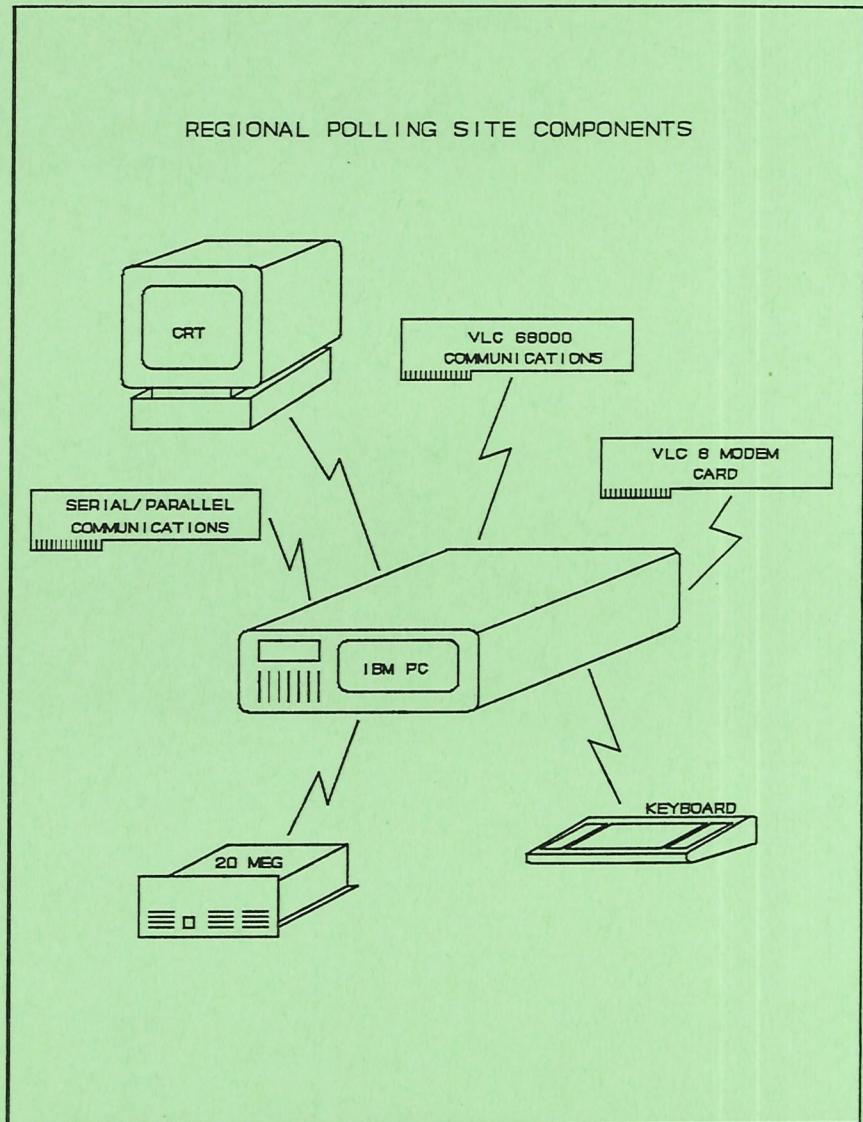
Each RPS has a polling capacity of approximately 150 locations and 500 VLTs per hour. South Dakota currently uses six RPSs for their entire system and maintain a primary polling window of less than two hours. A RPS is composed of a high-end personal computer, a proprietary VLC communications board set and six telephone communications lines. The communications board set handles the high speed direct connect link to the System/88 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

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.

MONTANA DATA SHEET

(as of March, 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 Equivalents (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: \$3.26 (ending March 31, 1991)

Fifth Year: \$2.71

Fourth Year: \$2.14

Third Year: \$1.68

Second Year: \$1.05

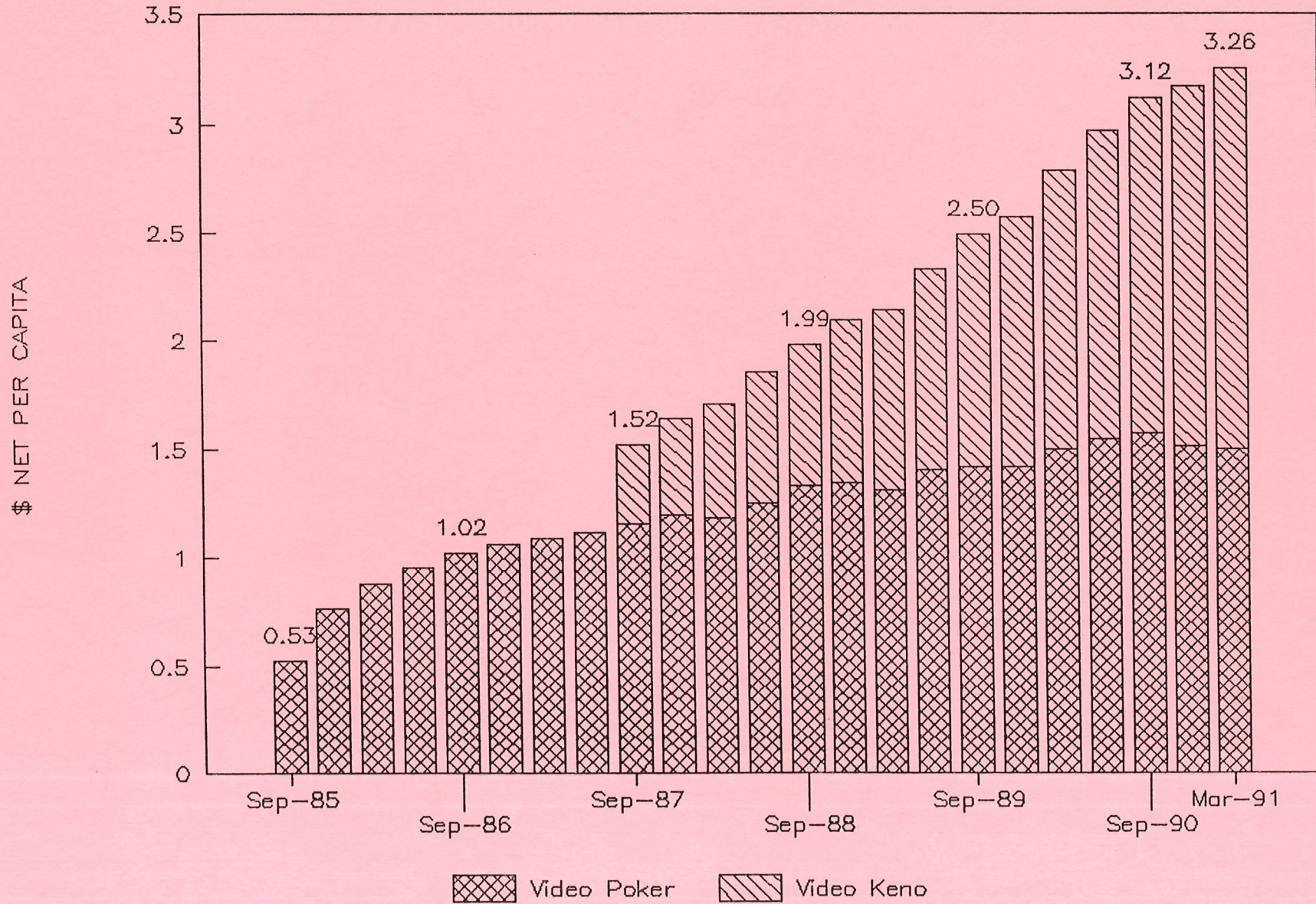
First Year: \$0.77

Licensing Fees

Manufacturer or Distributor: \$1,000/year

Each Video Gaming Machine: \$200/year

MONTANA WEEKLY PER CAPITA REVENUE



977.8
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SOUTH DAKOTA DATA SHEET

(as of August, 1991)

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 Jan. 1, 1991, 25% of net revenues after prizes. Prior rate was 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, 1990

Staff: Ten (10) Full Time Equivalents (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 layed, 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: \$3.34 (week ending August 17, 1991)

First Year: \$1.98

Licensing Fees

Manufacturer or Distributor: \$5,000/year

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

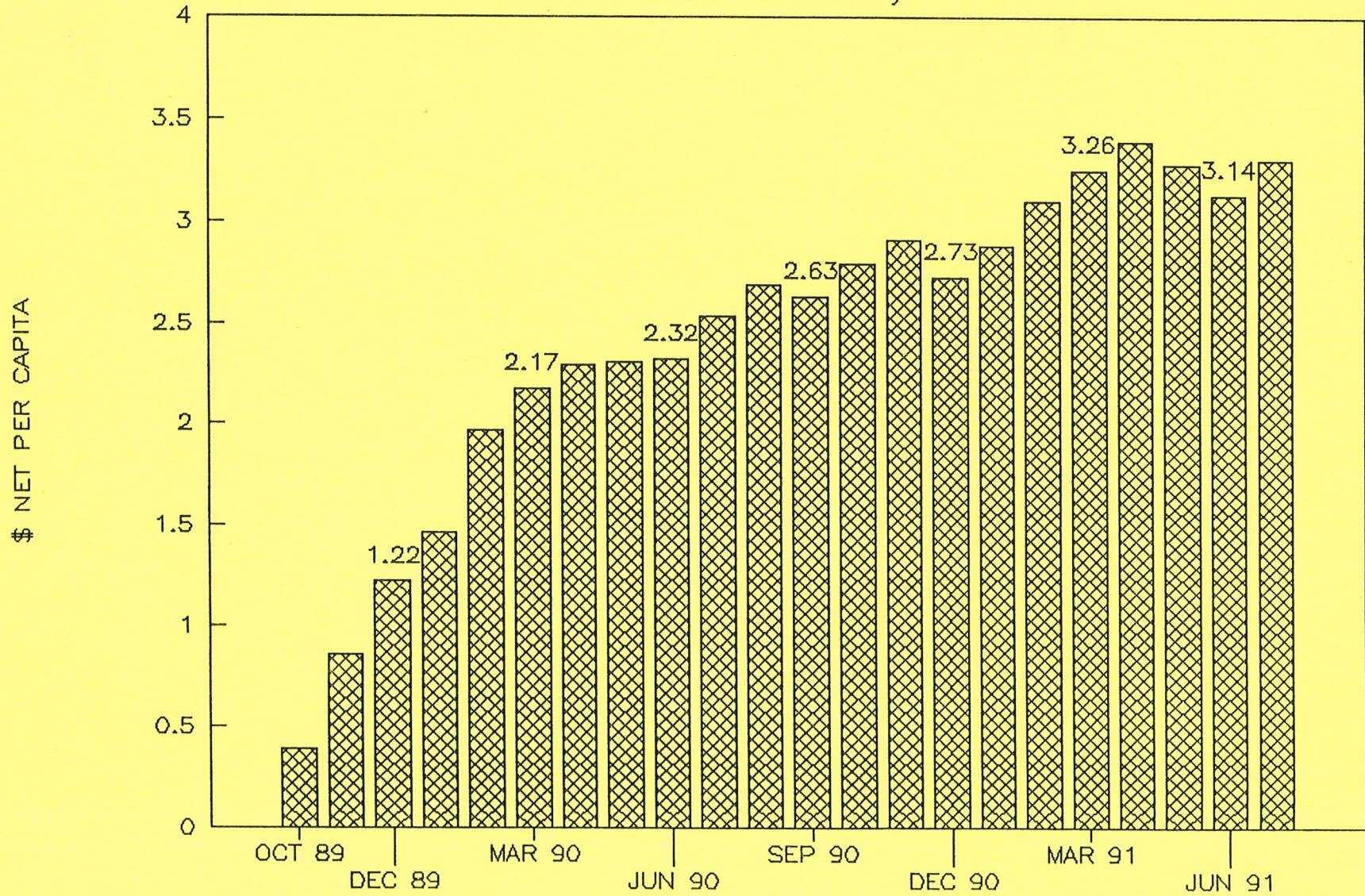
Licensed Establishment: \$50 with application

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.

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SOUTH DAKOTA WEEKLY PER CAPITA REVENUE

South Dakota Video Lottery



11-17-89
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**STANDARDS
ON
COIN-OPERATED VIDEO GAMBLING DEVICES**

Adopted: May 17, 1990

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The standards contained in this report were developed with the assistance of the Amusement and Music Operators Association (AMOA). The following members of the North American Gaming Regulators Association (NAGRA) and AMOA are recognized for their contributions to the preparation and publication of this report.

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NORTH AMERICAN GAMING REGULATORS ASSOCIATION

Standards

on

Coin-Operated Video Gambling Devices

Developed in consultation with the Amusement Music Operators Association

PURPOSE:

Publication of the recommended standards should not be construed as an endorsement of this form of legalized gambling. These standards are intended to provide regulatory guidance to jurisdictions which are contemplating or have enacted legislation which permits the legal use of coin-operated video gambling devices.

INTRODUCTION:

The following recommended standards for Coin-Operated Video Gambling Devices were developed by the North American Gaming Regulators Association in consultation with the Amusement Music Operators Association; additionally, comments were provided by the American Amusement Machine Association. The assistance and cooperation of these two trade associations is greatly appreciated and was solicited in order to assure that the standards are sound on both a regulatory and a practical basis.

This document consists of two parts; the first contains the recommended standards. The second contains NAGRA and industry comments, identified by the related section number, which provide background or additional information regarding the discussion which led to development of the standards.

COIN-OPERATED VIDEO GAMBLING DEVICE STANDARDS:

SECTION 1. DEFINITIONS

AS USED IN THESE STANDARDS:

"DEPARTMENT" MEANS THE AGENCY, BUREAU OR OTHER REGULATORY BODY CHARGED WITH THE ADMINISTRATION AND ENFORCEMENT OF THE VIDEO GAMBLING DEVICE STANDARDS.

"GRAY AREA" DEVICE MEANS:

A. PRIOR TO LEGALIZATION OF GAMBLING DEVICES: A DEVICE THAT WHICH MAY NOT SPECIFICALLY HAVE BEEN DESIGNED FOR GAMBLING PURPOSES BUT IS ACTUALLY USED FOR GAMBLING, OR, CAN BE INTERPRETED TO BE A GAMBLING DEVICE DEPENDENT UPON WHETHER IT IS DEEMED A GAME OF CHANCE.

B. AFTER LEGALIZATION OF GAMBLING DEVICES: A DEVICE WHICH IS SIMILAR TO THE TYPE OF DEVICE WHICH HAS BEEN LEGALIZED BUT DUE TO SOME VARIATION, THERE IS A QUESTION WHETHER THE DEVICE CAN LEGALLY BE OPERATED OUTSIDE OF THE LICENSING SCHEME FOR AMUSEMENT PURPOSES, OR, CANNOT BE OPERATED UNLESS LICENSED.

"LOCATION AGREEMENT" MEANS A WRITTEN AGREEMENT BETWEEN AN OPERATOR AND A LOCATION FOR THE PLACEMENT OF VIDEO GAMBLING DEVICES WITHIN THE LOCATION BY THE OPERATOR FOR USE BY THE PUBLIC.

"SUBSTANTIAL INTEREST" IN AN ORGANIZATION, ASSOCIATION OR BUSINESS MEANS:

A. WHEN, WITH RESPECT TO A SOLE PROPRIETORSHIP, AN INDIVIDUAL, OR HIS OR HER MARITAL COMMUNITY, OWNS, OPERATES, MANAGES OR CONDUCTS, DIRECTLY OR INDIRECTLY, THE ORGANIZATION, ASSOCIATION OR BUSINESS, OR ANY PART THEREOF; OR,

B. WHEN, WITH RESPECT TO A PARTNERSHIP, THE INDIVIDUAL OR HIS OR HER MARITAL COMMUNITY, SHARES IN ANY OF THE PROFITS, OR POTENTIAL PROFITS, OF THE PARTNERSHIP ACTIVITIES; OR,

C. WHEN, WITH RESPECT TO A CORPORATION, AN INDIVIDUAL OR HIS OR HER SPOUSE, IS AN OFFICER, OR DIRECTOR, OR THE INDIVIDUAL OR HIS OR HER MARITAL COMMUNITY IS A HOLDER, DIRECTLY OR BENEFICIALLY, OF 5% OR MORE OF ANY CLASS OF STOCK OF THE CORPORATION; OR,

D. WHEN, WITH RESPECT TO AN ORGANIZATION NOT COVERED IN (A), (B) OR (C) ABOVE, AN INDIVIDUAL OR HIS OR HER SPOUSE, IS AN OFFICER OR MANAGES THE BUSINESS AFFAIRS, OR THE INDIVIDUAL OR HIS OR HER MARITAL COMMUNITY IS OWNER OF OR OTHERWISE CONTROLS 10% OR MORE OF THE ASSETS OF THE ORGANIZATION; OR,

E. WHEN, AN INDIVIDUAL, OR HIS OR HER MARITAL COMMUNITY, FURNISHES 5% OR MORE OF THE CAPITAL, WHETHER IN CASH, GOODS OR SERVICES, FOR THE OPERATION OF ANY BUSINESS, ASSOCIATION OR ORGANIZATION DURING ANY CALENDAR YEAR.

SECTION 2. PAYBACK OR RATE OF RETURN TO PLAYERS

THE DEPARTMENT SHALL PRESCRIBE THE EXPECTED PAYBACK VALUE OF ONE CREDIT AWARDED TO BE AT LEAST 80% AND NOT MORE THAN 95% OF THE VALUE OF ONE CREDIT PLAYED. EACH VIDEO GAMBLING DEVICE SHALL HAVE AN ELECTRONIC ACCOUNTING DEVICE WHICH THE DEPARTMENT MAY USE TO VERIFY THE ELECTRONIC WINNING PERCENTAGE.

SECTION 3. BET LIMIT

3.A. A VIDEO GAMBLING DEVICE SHALL NOT ALLOW MORE THAN \$2.00 TO BE PLAYED ON A SINGLE GAME OR AWARD GAMES OR CREDITS IN EXCESS OF (\$500 TO \$1,000).

(The exact number is to be established by policy.)

3.B. A LOCATION SHALL PAY IN CASH ALL CREDIT OWED TO A PLAYER AS SHOWN ON A VALID TICKET VOUCHER.

SECTION 4. LICENSING SCHEME

4.A. EACH OF THE FOLLOWING ITEMS OR BUSINESS OPERATIONS SHALL BE REQUIRED TO OBTAIN A LICENSE:

i. DEVICE - EACH UNIT AND EACH LICENSE SHALL BE UNIQUE TO THAT DEVICE.

ii. LOCATION - EACH ACTUAL ESTABLISHMENT OR PREMISE WHERE THE DEVICES ARE LOCATED. A LOCATION SHALL ALSO BE REQUIRED TO BE ONE THAT IS LICENSED FOR THE ON-PREMISE CONSUMPTION OF ALCOHOLIC BEVERAGES.

(In recognition of jurisdictions where alcoholic beverage sales are prohibited, other placement restrictions may be considered. It is important that those options restrict the access of minors to the devices.)

iii. OPERATOR - ACTUAL OWNER OF THE VIDEO GAMBLING DEVICES. THE LOCATION AGREEMENT, BETWEEN THE OPERATOR AND THE LOCATION OWNER, SHALL BE IN WRITING AND A COPY OF THE AGREEMENT SHALL BE SUBMITTED TO THE DEPARTMENT.

iv. DISTRIBUTOR - REPRESENTATIVES OF MANUFACTURERS OF THE DEVICES BEING OPERATED WITHIN THE JURISDICTION.

(These are the persons selling or supplying devices to operators.)

v. MANUFACTURER - THE PERSON OR ENTITY WHICH ASSEMBLES, FROM SUBPARTS OR RAW MATERIALS, A COMPLETED DEVICE.

4.B. A PERSON SHALL NOT HOLD A LICENSE AT MORE THAN ONE LEVEL.

i. LEVEL 1 a) MANUFACTURER.

b) DISTRIBUTOR.

ii. LEVEL 2 ROUTE OPERATOR.

iii. LEVEL 3 a) LOCATION - OWNS THE EQUIPMENT OPERATED IN THEIR ESTABLISHMENT.

b) LOCATION - DOES NOT OWN THE EQUIPMENT OPERATED IN THEIR ESTABLISHMENT.

4.D. FOR THE PURPOSES OF THIS SECTION, THE DIFFERENT MARKETING LEVELS SHALL BE:

i. OPERATOR.

ii. DISTRIBUTOR AND MANUFACTURER.

iii. LOCATION.

4.E. THIS SECTION SHALL NOT PROHIBIT THE SAME PERSON LICENSED AND OPERATING AS A MANUFACTURER FROM BEING ALSO LICENSED AND OPERATING AS A DISTRIBUTOR.

4.F. EACH PERSON APPLYING FOR A LICENSE SHALL BE QUALIFIED TO HOLD THAT LICENSE. QUALIFICATIONS SHALL BE ESTABLISHED IN A MANNER THAT WILL INSURE THE HIGHEST INTEGRITY.

The above levels of licensing or permits are recommended. Further, it is strongly recommended that machine gambling be regulated at the state level. Consideration should be given to the issue of local controls and how much, if any, involvement is to be delegated to local government units, i.e. zoning, hours, etc.

The difference in these operations should be noted by a difference in the amount of the license fee. Consideration should be given to assessing a higher fee to the location owning their own equipment versus a location which does not own the equipment. This is due to their indirect competition with the route operator and the larger responsibility for maintenance of the devices.

The proposed licensing scheme limits the level of licenses that may be held by any one person. This restriction may result in persons attempting to conceal

their interest in a business in order to obtain licenses at multiple levels. The following language is recommended to resolve any questions regarding financial interest.

4.C. FINANCIAL INTEREST RESTRICTIONS

NO MANUFACTURER, DISTRIBUTOR OR OPERATOR OF VIDEO GAMBLING DEVICES OR ASSOCIATED EQUIPMENT SHALL:

i. HAVE ANY INTEREST, DIRECTLY OR INDIRECTLY, IN ANY OTHER OF THESE BUSINESSES OPERATING IN WHOLE OR IN PART AT A DIFFERENT MARKETING LEVEL.

ii. ALLOW ANY OF ITS OFFICERS, OR ANY OTHER PERSON WITH A SUBSTANTIAL INTEREST IN SUCH BUSINESS, TO HAVE ANY INTEREST IN ANY OTHER OF THESE BUSINESSES OPERATING IN WHOLE OR IN PART AT A DIFFERENT MARKETING LEVEL.

iii. EMPLOY ANY PERSON IN ANY CAPACITY OR ALLOW ANY PERSON TO REPRESENT THE BUSINESS IN ANY WAY IF SUCH PERSON IS ALSO EMPLOYED BY, OR REPRESENTS ANY OTHER OF THESE BUSINESSES OPERATING IN WHOLE OR IN PART AT A DIFFERENT MARKETING LEVEL.

iv. ALLOW ANY OTHER OF THESE BUSINESSES OPERATING IN WHOLE OR IN PART AT A DIFFERENT MARKETING LEVEL, OR ANY PERSON WITH A SUBSTANTIAL INTEREST THEREIN TO HAVE AN INTEREST DIRECTLY OR INDIRECTLY, IN IT.

v. HAVE ANY INTEREST, DIRECTLY OR INDIRECTLY, IN ANY BUSINESS OF ANY KIND IN WHICH ANY OTHER OF THESE BUSINESSES OPERATING IN WHOLE OR IN PART AT A DIFFERENT MARKETING LEVEL, OR ANY PERSON HAVING A SUBSTANTIAL INTEREST THEREIN, ALSO HAS A SUBSTANTIAL INTEREST.

vi. ALLOW ANY OTHER BUSINESS OF ANY KIND IN WHICH ANY OTHER OF THESE BUSINESSES, OR ANY PERSON HAVING A SUBSTANTIAL INTEREST THEREIN, TO HAVE ANY INTEREST, DIRECTLY OR INDIRECTLY, IN IT.

SECTION 5. NUMBER OF DEVICES PER LOCATION

THE MAXIMUM NUMBER OF DEVICES WHICH SHALL BE PERMITTED IN A SINGLE LOCATION SHALL NOT EXCEED 20.

SECTION 6. REVENUE USE

6.A. ALL REVENUE GENERATED FROM THE PLAY OF LICENSED DEVICES SHALL BE DEPOSITED BY THE LICENSEE INTO A SPECIALLY-CREATED, SEPARATE BANK ACCOUNT MAINTAINED BY THE LICENSEE.

6.B. ALL LICENSE FEE AND TAX REVENUE GENERATED FROM LICENSED ACTIVITIES SHALL BE DEPOSITED INTO A SPECIAL REVENUE ACCOUNT RESTRICTED FOR USE ONLY BY THE DEPARTMENT FOR:

i. THE ADMINISTRATION AND ENFORCEMENT OF THIS ACT AND THE TRAINING OF LAW ENFORCEMENT PERSONNEL IN THE INVESTIGATION OF ILLEGAL GAMBLING ACTIVITY; AND,

ii. TRAINING PERSONS LICENSED UNDER THE AUTHORITY OF THE DEPARTMENT.

6.C. AT THE END OF EACH FISCAL YEAR, ALL MONEY, INCLUDING INTEREST, IN THE DEPARTMENT'S ACCOUNT WHICH HAS NOT BEEN EXPENDED PURSUANT TO THIS SECTION SHALL BE DEPOSITED IN THE (DESIGNATE USE).

Specially designated bank accounts should be required of licensees to allow for electronic fund transfers of monies for tax payment. Such accounts also enhance accounting and auditing procedures as the monies are separated from other funds.

A reasonable license fee must be established for each level of licensing plus a percentage tax of revenues which will be retained by the jurisdiction to fund law enforcement programs and licensee training. It is suggested that the dedication of a portion of the funding for programs related to the treatment of problem or compulsive gamblers be considered.

SECTION 7. MACHINE SPECIFICATIONS

TO BE ELIGIBLE FOR LICENSURE, A VIDEO GAMBLING DEVICE SHALL BE DESIGNED TO MEET THE FOLLOWING MANUFACTURING SPECIFICATIONS:

a. THE DEVICE SHALL CONTAIN A PRINTER THAT AWARDS PAYOUT OR PRIZE VOUCHERS, PRINTS A PERFORMANCE SYNOPSIS OF THE GAMES PLAYED, AND CREATES AN EXACT AND IDENTICAL COPY OF ALL ITEMS PRINTED WHICH IS RETAINED INSIDE THE MACHINE.

b. THE DEVICE SHALL ONLY ACCEPT COINS AND CURRENCY. THE MAXIMUM VALUE OF CURRENCY WHICH MAY BE ACCEPTED IS (INSERT VALUE).

(If a value per credit of less than \$1.00 is desired, the quarter should be established as the coin to be accepted. If the value per credit is less than a quarter, a player must be allowed to purchase one credit to play by receiving a credit slip issued by the device for the difference between the quarter played and the actual value of one credit.)

c. THE DEVICE SHALL HAVE ELECTRONIC (SOFT) METERS AND MECHANICAL (HARD) METERS. THE ELECTRONIC METERS SHALL BE CAPABLE OF BEING PRINTED ON THE PRINTING MECHANISM.

d. THE MAIN LOGIC BOARD, THE PRINTED CIRCUIT BOARD CONTAINING GAME EPROMS (ERASABLE PROGRAM READ-ONLY MEMORY), SHALL BE ISOLATED IN A LOCKED AREA OF THE DEVICE. GAME EPROMS SHALL BE SEALED TO THE BOARD BY THE MANUFACTURER USING A PROCESS APPROVED BY THE DEPARTMENT. THE SEALING SHALL BE OF SUCH A TYPE THAT FIELD EXAMINATION OF THE EPROMS CAN OCCUR AND THE EPROMS CAN EFFECTIVELY BE RESEALED (I.E. SEALING TAPES).

e. EACH DEVICE SHALL HAVE A NON-REMOVABLE SERIAL NUMBER PLATE WHICH PROVIDES AT LEAST THE FOLLOWING INFORMATION:

i. MANUFACTURER'S NAME;

ii. MODEL;

iii. DATE OF MANUFACTURE; AND,

iv. UNIQUE SERIAL NUMBER OF THE DEVICE.

f. ALL ACCESS TO THE DEVICE SHALL BE CONTROLLED THROUGH LOCKS.

g. ALL DEVICES SHALL HAVE SURGE PROTECTION AND BATTERY BACKUP SYSTEMS.

h. ALL DEVICES SHALL PASS A STATIC DISCHARGE TEST OF AT LEAST 40,000 VOLTS.

i. THE GAME SHALL BE RANDOM AND THIS SHALL BE TESTED TO A 99% CERTAINTY.

Exact technical specifications should be designated to be established through the rulemaking authority of the regulating department. These rules should include at a minimum the above requirements.

SECTION 8. SYSTEM

A VIABLE COMPUTER-LINKED SYSTEM, (EITHER DIAL UP OR ON LINE) SHALL BE REQUIRED. THE SYSTEM SHALL INCORPORATE ELECTRONIC FUND TRANSFER PROCEDURES TO FACILITATE THE REVENUE COLLECTION PROCESS. THE SYSTEM SHALL INCLUDE REQUIREMENTS FOR BASIC DATA SYSTEM SECURITY. FURTHER THE SYSTEM SHALL PROVIDE FOR THE ENCRYPTION OF ALL INFORMATION BEING COMMUNICATED BETWEEN THE DEVICE AND THE COMPUTER.

The type of control system in which the devices are placed requires thorough consideration. The three available options are: stand-alone, dial-up computer system, or on-line computer system. The dial-up system is recommended.

SECTION 9. GRAY AREA DEVICES

THE FOLLOWING SCHEDULE SHALL BE FOLLOWED TO REMOVE ILLEGAL DEVICES FROM PLAY AND IMPLEMENT THE NEW LICENSING SCHEME FOR VIDEO GAMBLING DEVICES.

- | | |
|--------------|--|
| 0 | LAW ENACTED |
| 1 - 3 MONTHS | AGENCY FORMED. RULE DRAFTING, HEARING PROCESS ON PROPOSED OPERATIONS, STANDARDS AND QUALIFICATIONS BEGUN. |
| 4 - 5 MONTHS | EDUCATE OPERATORS ON GETTING DEVICES APPROVED, START LICENSING PROCEDURES INCLUDING MACHINE REVIEW. |
| 6 - 7 MONTHS | EDUCATE OPERATORS ON GETTING "GRAY AREA" DEVICES OUT OF PLAY, PROVIDE FIRM DEADLINES FOR GETTING DEVICES OUT OF PLAY, HAVE LICENSING IN FULL OPERATION. EDUCATE LAW ENFORCEMENT ON LAW. |
| 8 MONTHS | GET "GRAY AREA" DEVICES OUT OF MARKET, HAVE MANUFACTURERS LICENSED AND DEVICES APPROVED FOR OPERATORS TO PLACE COMMITMENTS FOR ORDERS. TO AVOID UNFAIR ADVANTAGE, NO APPROVAL SHOULD BE GRANTED UNTIL AT LEAST 2 MANUFACTURERS HAVE DEVICES QUALIFIED. |
| 9 MONTHS | "GRAY AREA" DEVICES OUT OF PLAY. NEW DEVICES APPROVED. OPERATORS GEARING UP FOR START OF PLAY UNDER NEW LAW. NEW DEVICES MAY BE SHIPPED |

TO DISTRIBUTORS FOR PREPARATION FOR PLACEMENT. THERE SHALL BE AT LEAST A 30 DAY PERIOD WITH NO DEVICES IN PLAY AT ALL TO PROVIDE A REASONABLE PERIOD OF TIME TO ASSURE THAT NO OVERLAP OF DEVICES OCCURS.

The process by which "gray area" gambling devices will be removed from play and replaced with approved devices must be established. A substantial penalty (felony and automatic denial of any future license application) should be established for persons found in possession of "gray area" devices after the 30 day "no play" period suggested above.

SECTION 10. DEVICE TESTING/INSPECTION

TESTING AND APPROVAL OF NEW VIDEO GAMBLING DEVICES AND ASSOCIATED EQUIPMENT -- FEE.

10.A. THE DEPARTMENT SHALL TEST ALL NEW VIDEO GAMBLING DEVICES AND ASSOCIATED EQUIPMENT WHICH ARE MANUFACTURED, SOLD, OR DISTRIBUTED FOR USE IN THE STATE BEFORE THE VIDEO GAMING DEVICE OR ASSOCIATED EQUIPMENT IS SOLD, PLAYED, OR USED.

10.B. A VIDEO GAMBLING DEVICE OR ASSOCIATED EQUIPMENT MAY NOT BE TESTED OR APPROVED BY THE DEPARTMENT UNTIL THE MANUFACTURER OF THE DEVICE OR ASSOCIATED EQUIPMENT IS LICENSED AS REQUIRED.

10.C. THE DEPARTMENT SHALL REQUIRE THE MANUFACTURER SEEKING THE TESTING AND APPROVAL OF A NEW VIDEO GAMBLING DEVICE OR ASSOCIATED EQUIPMENT TO PAY THE ANTICIPATED ACTUAL COSTS OF THE TESTING IN ADVANCE AND, AFTER THE COMPLETION OF THE TEST, SHALL REFUND OVERPAYMENTS OR CHARGE AND COLLECT AMOUNTS SUFFICIENT TO REIMBURSE THE DEPARTMENT OF UNDER PAYMENTS OF ACTUAL COSTS.

10.D. THE DEPARTMENT MAY INSPECT AND TEST AND APPROVE, DISAPPROVE, OR PLACE A CONDITION UPON A VIDEO GAMBLING DEVICE PRIOR TO ITS DISTRIBUTION AND PLACEMENT FOR PLAY BY THE PUBLIC.

10.E. A LICENSED VIDEO GAMBLING DEVICE AND THE LOCATION AT WHICH IT IS BEING PLAYED SHALL BE OPEN TO INSPECTION AT ALL TIMES BY AN AUTHORIZED EMPLOYEE OF THE DEPARTMENT OR BY THE STATE POLICE OR A PEACE OFFICER OF A SUBDIVISION OF THIS STATE. WHENEVER AN AUTHORIZED EMPLOYEE OF THE DEPARTMENT, THE STATE POLICE, OR A PEACE OFFICER OF A SUBDIVISION OF THIS STATE HAS PROBABLE CAUSE TO BELIEVE THAT ANY VIDEO GAMBLING DEVICE WAS OBTAINED FROM AN UNLICENSED MANUFACTURER, IS BEING OPERATED WITHOUT A LICENSE, OR FAILS TO MEET THE MANUFACTURING SPECIFICATIONS OF THIS ACT, HE OR SHE SHALL REMOVE AND IMPOUND THE DEVICE FOR THE PURPOSE OF TESTING AND DETENTION. THE DEVICE SHALL NOT BE DESTROYED EXCEPT PURSUANT TO COURT ORDER.

An initial device testing process is recommended. This process is separate from an on-going device inspection program which is also recommended. This testing is the process that qualifies a device for sale or operation within a jurisdiction and is the most effective form of front-end control over the device. In consideration of the recommendation for a dial-up computer system to which these games are connected, it is necessary that all devices be inspected prior to being placed into operation as a form of player protection and insures the device initially meets the requirements set forth in statute and rule. Further, all costs related to device testing should be assessed to the manufacturer of the device.

An on-going device inspection program must also be established to insure continued compliance with the law. Further, the department must be granted certain rights of inspection to complete this process.

SECTION 11. PLAYER PROTECTION

11.A. IF A DEVICE FAILS TO MEET THE SPECIFICATIONS AND REQUIREMENTS OF THIS ACT OR ANY RULE OF THE DEPARTMENT AT ANY TIME AFTER THE INITIAL PERMIT HAS BEEN ISSUED, THE LOCATION SHALL IMMEDIATELY REMOVE THE DEVICE FROM PUBLIC ACCESS UNTIL IT HAS BEEN ADJUSTED TO MEET ALL REQUIREMENTS.

11.B. A LOCATION SHALL PAY IN CASH ALL CREDITS OWED TO A PLAYER ON A VALID TICKET VOUCHER.

11.C. ALL PAYTABLES DISPLAYING PRIZES OR AWARDS SHALL BE PROMINENTLY DISPLAYED ON THE DEVICE.

11.D. THE DEVICE OWNER SHALL DISPLAY ON EACH DEVICE, OR IN A CONSPICUOUSLY VISIBLE PLACE, THE TELEPHONE NUMBER THAT CAN BE CALLED TO REPORT DEVICE MALFUNCTIONS OR COMPLAINTS.

11.E. THE DEVICE OWNER OR OPERATOR MAY ESTABLISH "HOUSE RULES" REGULATING THE OPERATION OR CONDUCT OF THE DEVICES PROVIDED THEY DO NOT CONFLICT WITH ANY ESTABLISHED BY THE DEPARTMENT.

SECTION 12. PENALTIES

Penalties for violations of the act and any rules promulgated under authority of the act must be established. Specific recommendations are not included as this is a policy decision due to the variety of criminal sanctions. The penalties should be set to agree with penalties for similar offenses in the particular jurisdiction. The department should be given the authority to resolve violations administratively through license suspension or revocation,

in addition to civil or criminal action, or both. (See APPENDIX I for excerpts from the State of Washington's gambling act for possible reference.)

SECTION 13. REGULATORY STRUCTURE

GAMBLING REGULATORY AGENCY

This structure deals with the elements of the control of gambling. Local law enforcement agencies continue to assume responsibility for dealing with unlawful gambling. This structure may be incorporated into a larger work unit. The addition of a commission may be considered.

APPENDIX II contains an example of a proposed commission structure that could oversee the work of the regulatory agency. This proposal was considered, but not adopted, by the State of Montana and is included for reference only.

The amount of staffing for this agency is dependent upon the amount of gambling to be regulated and the amount of funding support provided by the governing body. The total funding support should be generated from the gambling industry with no funding coming from the taxpayers. The agency is headed by a director and administration staff. The director rules on licensing applications, disciplinary matters, and policy issues. The heads of the three divisions shall provide support to permit the director to fulfill the powers and duties of the agency.

LICENSING DIVISION

A. DUTIES:

- PROCESS LICENSE APPLICATIONS
- PROVIDE PUBLIC INFORMATION
- TRAIN LICENSEES
- COORDINATE PREPARATION AND PRESENTATION OF STATUTE AND RULE PROPOSALS

B. STAFFING:

- ADMINISTRATOR, SPECIALISTS, SUPPORT STAFF

AUDIT/OPERATIONS DIVISION

A. DUTIES:

- RECEIVE AND ENTER DATA FROM REPORTS

- MANAGE DATA
- AUDIT REPORTS AND PROVIDE COMMENT
- PROVIDE SUPPORT TO OTHER DIVISIONS

B. STAFFING:

- ADMINISTRATOR, AUDITORS, SUPPORT STAFF

COMPLIANCE DIVISION

A. DUTIES:

- VISIT PREMISES OF LICENSEES FOR INSPECTION
- RECEIVE, INVESTIGATE, AND MAKE RECOMMENDATIONS ON ALLEGATIONS OF VIOLATIONS
- PREPARE AND PRESENT CASES FOR PROSECUTION OR HEARING
- COORDINATE ACTION WITH LOCAL LAW ENFORCEMENT AGENCIES
- PERFORMS OR OVERSEES TESTING OF DEVICES

B. STAFFING:

- ADMINISTRATOR, PEACE OFFICERS, DEVICE TESTING (LABORATORY) TECHNICIANS, INVESTIGATORS, ATTORNEYS, AND SUPPORT STAFF

In examination of special regulatory issues inherent to gambling, consideration should be given to the creation of a single regulatory agency with enforcement authority. This agency should have all responsibilities associated with control of the devices. An early commitment should be made to provide adequate enforcement staffing; inadequate funding for these programs insures a lack of success by the regulators. The above structure for such an agency is recommended.

SECTION 14. SHIPMENT OF DEVICES

ALL SHIPMENTS OF VIDEO GAMBLING DEVICES INTO THIS STATE MUST COMPLY WITH THE ACT OF THE CONGRESS OF THE UNITED STATES ENTITLED, "AN ACT TO PROHIBIT TRANSPORTATION OF GAMBLING DEVICES IN INTERSTATE AND FOREIGN COMMERCE," APPROVED JANUARY 2, 1951, BEING CH. 1194, 64 STAT. 1134, AND ALSO DESIGNATED AS 15 USC 1171-1177.

Strong regulatory controls over the shipment of devices to a jurisdiction are necessary. Control of the program is not possible unless the regulatory agency is able to control its borders. This control must include consideration of Title 15 USC (those portions referred to as the "Johnson Act").

SECTION 15. RECORD RETENTION REQUIREMENT

15.A. DEVICE OPERATION RECORDS, INCLUDING AUDIT TAPES, SHALL BE MAINTAINED AND MADE AVAILABLE FOR INSPECTION BY THE DEPARTMENT UPON REQUEST. THE RECORDS SHALL PROVIDE ALL NECESSARY INFORMATION THE DEPARTMENT MAY REQUIRE TO ENSURE OPERATION OF MACHINES IN COMPLIANCE WITH THE ACT.

15.B. DEVICE OPERATION RECORDS SHALL, BUT ARE NOT LIMITED TO, INCLUDE:

i. THE ACCOUNTING TICKET REQUIRED TO BE MAINTAINED BY THIS ACT AND CORRESPONDING LICENSEE RECORDS CONTAINING THE PERFORMANCE SYNOPSIS OF EACH DEVICE; AND,

ii. THE EXACT COPY OF THE PRINTED TICKET VOUCHER AS PROVIDED BY DEPARTMENT RULES.

15.C. THE LICENSEE'S RECORDS REQUIRED BY THIS RULE SHALL BE MAINTAINED IN THE STATE BY THE LICENSEE OR HIS OR HER REPRESENTATIVE FOR A MINIMUM OF 3 YEARS.

15.D. IF THE LICENSEE DOES NOT KEEP RECORDS AS REQUIRED IN THIS RULE, THE DEPARTMENT MAY ESTIMATE TAX BY UTILIZING THE BEST AVAILABLE METHOD.

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SECTION COMMENTS

The following comments are being provided solely for the purpose of providing background or additional information regarding the discussions which resulted in the development of the standards and may conflict with the recommended standards. Each comment is preceded by an identification of the source of the comments. "Committee" refers to a consensus of NAGRA and AMOA representatives and generally provides information regarding the related discussion. "Manufacturers" refers to several different device manufacturers whose comments were also received and considered by NAGRA.

Because a number of the recommended standards are actually in use in the South Dakota program, a copy of the South Dakota Lottery Act is included at APPENDIX III.

SECTION 2. PAYBACK OR RATE OF RETURN TO PLAYERS

COMMITTEE: The committee believed very strongly that in order to create a "fair game" and a "level playing field", both minimum and maximum percentages must be established. This allows a minimum rate of return a player could expect and reduces any unfair advantage that would be created by competition for the highest performance. Montana uses a minimum of 80%. South Dakota has a minimum of 83% and a maximum of 96% by administrative rule.

SECTION 3. BET LIMIT

NAGRA: NAGRA members felt that a maximum overall bet limit should be established to limit levels of play.

COMMITTEE: The committee opposed the possibility of devices that would be placed into play with higher limits because of the concern of "fair return" to the player. "Fair return" means that the ratio of return to the amount bet, and factoring in the level of chance (the statistical probability of obtaining the winning combination), is fair to the playing public. The same logic carried over to the establishment of maximum prize. Fair return will directly correlate to player satisfaction. The committee agreed that capping these items would also result in a reduced incentive to tamper with the games. This provides a useful, indirect regulatory control.

AMOA: AMOA recommended a maximum bet of \$2.50 and a maximum prize of \$250. Their representatives expressed concern over fixing prize limits and not being able to adjust them as the rate of inflation affects the value of money. They suggested that the controlling department should have the ability to adjust the prize limits.

MANUFACTURERS: Some prefer a higher maximum prize limit (\$1,000) for a broader selection of games, another felt it should be adjusted down (\$250 - \$500) in consideration of social acceptability and security impact and increased later if needed to stimulate play. Another commented that the minimum prize limit should be \$400 as it is less difficult to divide when percentaging an 8 coin

game (\$2.00) and generating an award schedule for maximum player appeal. It is also suggested that the location be allowed to pay winners by check in excess of a stated amount to provide better security for players as well as limiting the cash bank the operation will need to have on hand. South Dakota allows payments by check and also allows payment in lottery tickets.

SECTION 4. LICENSING SCHEME

NAGRA: In order to insure uniformity in enforcement and equal treatment of licensees regardless of their location within the state, it is recommended that the regulatory authority for statewide programs be assigned a state agency and not fragmented at local levels. As this area involves technical specifications, the burden on the industry can be significant if the rules vary by county, city, etc. Dedication of a portion of the revenue to local units for the active policing of illegal activities or the review of license applications is workable and provides local involvement where it is most appropriate.

COMMITTEE: The committee felt it was important that location agreements be completed in written form. Under no circumstance does the committee advocate the regulation of the terms of those agreements as this remains a business decision between the parties involved. Also, the regulating agency should recognize the suggested licensing scheme does not contemplate the unlicensed sale of the devices. A person may need to dispose of this equipment on an occasional or one-time basis, such as, a financial or lending institution that, as lien holders, receive equipment through default or foreclosure. The licensing scheme should provide, through policy or rule, a method that accommodates these circumstances.

AMOA: It is critical to recognize the need for prompt and accurate maintenance and servicing of the devices. Two levels of certification should be established, one for collectors and one for repair and maintenance technicians with the latter to receive training and certification through an AMOA-sponsored program.

MANUFACTURERS: One recommends having only two levels of licensing by moving the location which owns equipment to the same category as a route operator. A location would be under the same scrutiny as an operator and must be able to supply the same level of service to the players and the equipment. Another points out that the definition of manufacturer should refer to the manufacturer's representatives as these are the persons selling, supplying and servicing devices to operators.

SECTION 5. NUMBER OF DEVICES PER LOCATION

COMMITTEE: The committee felt it necessary to recommend a cap on machine numbers per location. Regardless of where the maximum level is set, the actual number placed in a location will be established by the demand of the market place. The committee would not support any higher number as it

believes this would represent a higher level of gambling activity and that is a policy decision of the jurisdiction concerned.

MANUFACTURERS: Manufacturers agree that a cap must be established and one questions whether 20 is too high as it may provide an incentive to establish locations solely for the purpose of gambling.

SECTION 6. REVENUE USE

COMMITTEE: The committee actively debated the suggestion of funding for programs related to problem or compulsive gamblers and due to the degree of controversy, decided to at least recommend that it be considered. The committee also realizes the strong revenue potential of device gambling. It believes that potential revenue should be subjected to a fair tax to support the program and assist the state in generating needed revenue. The amount of tax and its use are to be established by each state's legislature. Further, the committee recognized the increased impact such additional responsibilities would have on law enforcement and agree it is vitally important that enforcement programs are fully funded to assure the integrity of the activity. The committee further recognized that licensee training is critical to reduce violations caused by ignorance of the law, rules and procedures and to assist licensees (particularly when the licensee is a charitable organization) in establishing internal control systems to maximize their net return.

SECTION 7. MACHINE SPECIFICATIONS

MANUFACTURERS: One commented that regarding the denomination of coins, the language is very restrictive and will generate extra paperwork for locations wishing to operate devices at denominations less than 25 cents. The maximum bet level of \$2.00 should be a sufficient guideline for the number of coins bet per game. Another commented that sealing EPROMS at the factory level is cumbersome and prefers that the department inspectors seal the EPROM when the game is installed at the location; this also allows an inspector to determine and control when the game is to be activated. Another felt that sealing of EPROMS is unnecessary if an on-line computer system is used. The system will check the EPROM with each communication and not allow a device to operate if it is not correct.

SECTION 8. SYSTEM

NAGRA: The dial-up system is recommended for the following reasons:

1. Frequent gathering of data. There is no need to limit data gathering to monthly or quarterly cycles because of the expense relating to data handling.
2. Timely information. The performance of an entire jurisdiction is available every day. This allows a regulator to spot trends or problems as

they occur rather than weeks or months later. Any terminal on a dial-up system can be polled at any time and up-to-the-minute data is immediately available for the price of a few seconds telephone call.

3. Data entry of terminal information is fully automated. No expenses or delays are encountered by the need for data to be prepared by hand, sent to the regulator's offices, sorted and input by hand using data entry clerks.

4. Risk of human error is eliminated. There is no human intervention in the automated dial-up path from the terminal's computer to the regulator's central computer. This prevents frequent and costly errors that occur when forms are not completed properly or are misread by data entry personnel.

5. Complete reporting of each terminal's play, cash in/out performance, diagnostics and security daily or instantly from the central site. Information gathered and processed by hand from stand-alone terminals is limited to only the most basic income and play data.

6. Regulator receives complete control over terminals. By using dial-up, the central site can control each terminal's hours of operation, game menu, length of time it can operate without communications, analyze its functions, instantly poll memory and enable or disable it completely.

7. Tight security over all terminals and a drastically reduced need for technical field staff. The central system can interrogate terminals, check the validity of their programs to detect chip failures or gaffed games and gather time, date, values and changes to information. The central site is able to look at such events as resets of RAM, door openings, tickets printed and power-down conditions without having to send personnel into the field.

8. Timely and efficient collection of the jurisdiction's share of revenues. Use of Electronic Fund Transfers (EFT) within a few days of the end of a billing cycle gets the revenue into governmental coffers quickly. Billing cycles can be much shorter, e.g. biweekly instead of quarterly. Accounts receivable and delinquencies are virtually eliminated by use of EFT in combination with the ability to force compliance by being able to immediately shut off terminals with delinquent accounts.

MANUFACTURERS: It is noted that the recommended dial-up system accomplishes the same security as an on-line system at considerably less cost; the dial-up system accomplishes virtually the same security while the cost is absorbed economically by the operators and locations. One manufacturer recommends against giving the host system the ability to control game menu selection and feels this should be solely under the operator's control.

SECTION 9. GRAY AREA DEVICES

COMMITTEE: Regulators and AMOA representatives agreed that a strong enforcement stance, including criminal sanctions and the automatic denial of

any future licenses, should be taken during the 30 day, no play period. This is to insure the community and industry gets the message that proper controls are now in place.

MANUFACTURERS: All agreed with the proposed implementation schedule especially if coupled with a "dry run" to facilitate a smooth start up. One felt implementation could even be accomplished in less time.

SECTION 13. REGULATORY STRUCTURE

NAGRA: Determining whether to include a commission in the structure is a widely debated issue. In order to be effective, however, and not create unnecessary and duplicative administrative work, if a commission is established, it should be given specific duties and participate on an active basis, for example, hearing appeals of license denial. A part-time commission of political appointees with no background in the area who have no other function than to periodically meet and scrutinize work accomplished by others will only slow down the process, invite criticism and create extra work for the regulatory staff who need the time to complete their duties.

MANUFACTURERS: Regarding the commission concept, based upon experience with gambling regulatory agencies, it is recommended that only one regulatory body be involved to reduce confusion and increase efficiency. Determining which agency is controlling what entities and maintaining separation is difficult and usually results in duplication of responsibility, staffing and operating overhead. Regarding the testing of devices, one manufacturer recommends the use of an independent testing laboratory rather than setting it up within the state department. This will facilitate the approval process while eliminating an expense to the state in staffing and equipment.

WHAT HAS THE LOTTERY DONE FOR THE STATE OF KANSAS?

IT IS NOT NECESSARY FOR ME TO "ARGUE MERITS" OF THE LOTTERY, WHEN I TELL YOU WHAT THE LOTTERY HAS DONE AND IS DOING FOR THE STATE OF KANSAS.

THE KANSAS STATE LOTTERY WAS AUTHORIZED BY THE RESOUNDING APPROVAL OF KANSAS VOTERS ON NOVEMBER 11, 1986. WITH THE BACKING OF AN INITIAL START-UP LOAN FROM THE STATE, THE LOTTERY SOLD ITS FIRST TICKETS ON NOVEMBER 12, 1987.

AND ON JUNE 8, 1988, THE LOTTERY SUBMITTED A CHECK FOR \$2,843,321.24 -- REPAYING IN FULL, WITH INTEREST, THE STATE START-UP LOAN. THIS REIMBURSEMENT WAS MADE A FULL YEAR BEFORE IT WAS DUE, REFLECTING THE POPULARITY EXPECTED OF A LOTTERY USHERED INTO BEING BY A 64% VOTE OF THE PEOPLE.

IN THE 4 YEARS OF ITS EXISTENCE, THE \$90+ MILLION NET THE STATE RECEIVED FROM THE LOTTERY'S OPERATION HAS BEEN UTILIZED, AT THE DIRECTION OF THE KANSAS LEGISLATURE, FOR PROPERTY REAPPRAISAL (SINCE ACCOMPLISHED), PRISON CONSTRUCTION AND ECONOMIC DEVELOPMENT.

WITH 90% OF THE FUNDS EARMARKED FOR ECONOMIC DEVELOPMENT, THE LOTTERY'S EFFECTS HAVE BEEN FAR-REACHING. FINANCING WAS AVAILABLE NOT ONLY FOR DIRECT CREATION OF NEW JOBS FOR KANSANS, BUT FOR ASSOCIATED BUSINESSES (NEW AND EXPANSION) NEEDED TO PROVIDE BUILDING SPACE, EQUIPMENT, VEHICLES, ETC., TO SUPPORT THIS INCREASED ECONOMIC GROWTH. ASSISTANCE HAS BEEN PROVIDED THROUGH LOTTERY FUNDS FOR CAPITAL IMPROVEMENTS IN SMALLER COMMUNITIES WITH LIMITED BUDGETS, AND STATE WILDLIFE & PARKS FACILITIES HAVE BEEN ENHANCED.

SOME FUNDING FOR THE MARGIN OF EXCELLENCE SCHOLASTICS PROGRAM IS INCLUDED IN LOTTERY FUNDS' USAGE FOR ECONOMIC DEVELOPMENT VENTURES. THE KANSAS LOTTERY HAS ASSISTED IN THE SUPPORT (THROUGH ITS ADVERTISING) OF SEVERAL SPORTING AND MUSICAL EVENTS, AND AT THE ANNUAL KANSAS STATE FAIR.

THE LOTTERY PROVIDES DIRECT EMPLOYMENT TO 100 INDIVIDUALS, WITH CONCURRENT SUPPORT SYSTEMS AND SUPPLIES, THROUGH ITS OFFICES, WITH NO DIRECT COSTS TO THE STATE OF KANSAS. THE LOTTERY IS A TOTALLY SELF-SUFFICIENT BUSINESS WHICH COSTS THE TAX-PAYERS NOTHING.

AND ON THE "STRICTLY ENTERTAINMENT" SIDE OF THE COIN: THE WAY LOTTERY SALES ARE INCREASING, IT SEEMS OBVIOUS THE PEOPLE STILL WANT A LOTTERY. SALES AS OF JANUARY 31, 1992, TOTALED \$313,850,851. DURING THIS TIME, 40,779,000 PEOPLE BECAME DIRECT LOTTERY PRIZE WINNERS -- WITH PRIZES RANGING FROM THE LOWEST TIER ALL THE WAY UP TO \$35 M. KANSAS BUSINESSES -- 1,950 INSTANT RETAILERS, 987 ON-LINE RETAILERS AND 305 PULL-TAB RETAILERS -- MADE \$16,589,000 IN LOTTERY RETAILER COMMISSIONS, AND HAVING LOTTERY PRODUCTS TO SELL MADE THE DIFFERENCE BETWEEN STAYING AFLOAT OR NOT TO SOME MERCHANTS.

CONTRACTS WITH THE LOTTERY BENEFIT KANSAS FIRMS -- THE LOTTERY PURCHASES ADVERTISING AND DOES BUSINESS WITH NUMEROUS VENDORS (ALL NECESSITATING AT THE VERY LEAST THE EMPLOYMENT OF SOME KANSANS -- WHILE OTHERS ARE TOTALLY KANSAS STAFFED).

THE FUTURE OF THE LOTTERY

WHY SHOULD KANSAS HAVE A CRIPPLED LOTTERY?

WE FIND STUMBLING BLOCKS IN OUR WAY, SUCH AS:

SEVERAL BILLS ARE BEFORE THE LEGISLATURE AT PRESENT WHICH SEEK TO LIMIT THE LOTTERY'S EXPANSION (I.E., SR 1632).

KANSAS IS ALREADY LOSING MONEY TO MISSOURI'S LOTTERY. THE MISSOURI LOTTERY HAS LEGISLATION WHICH PERMITS LARGER PRIZES. THAT LOTTERY, ALSO, HAS SEEN A POTENTIAL FOR VIDEO LOTTERY, SO MORE DOLLARS COULD BE LOST IN THE FUTURE.

OUR VERY CONSERVATIVE ESTIMATE FOR VIDEO LOTTERY PROCEEDS IN NET DOLLARS GOING DIRECTLY TO THE STATE OF KANSAS WAS \$53 M PER YEAR. MORE REALISTIC ESTIMATES WOULD SET THIS FIGURE CLOSER TO \$75 M. WE KNOW THE VIDEO GAMES ARE POPULAR, AND I BELIEVE THEY WOULD BE MUCH MORE POPULAR WITH THE LEGALITY AND BACKING OF THE STATE.

WITH THE FREEDOM TO OFFER NEW AND INNOVATIVE GAMES, WE CAN EFFECTIVELY COMPETE WITH NEIGHBORING STATES -- AND MAKE THE KANSAS LOTTERY AN EVEN MORE VALUABLE SOURCE OF REVENUE.

KANSAS LOTTERY

To Date Activity 01/31/92

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>45,086,384</u>
To Date Total	\$313,815,581

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>2,384,325</u>
To Date Total	\$16,589,568

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>21,361,081</u>
To Date Total	\$147,230,142

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>16,173,008</u>
To Date Total	\$90,730,666

* 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

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Many questions have been asked regarding the use of the money.
 Below is a detailed breakdown of allocations from the Economic
 Development fund for the 1992 fiscal year.

Department of Commerce	
State Operations	4,325,504
Work Force Training Programs	2,250,000
Certified Development Companies (such as SCKEDD)	475,000
Small Business Development Centers	325,000
Trade Show Assistance	200,000
Community Planning Grants	445,000
Kansas Technology Enterprise Corporation	
Operations and Assistance (Includes funding for the Centers of Excellence at the universities)	7,024,015
Agriculture Value Added Centers	647,765
Kansas Arts Commission	
Programming Grants	620,734
State Historical Society	
Humanities Grant	65,000
Historic Site Improvements	80,000
Board of Agriculture — Marketing Program	225,000
State Fair — Capital Improvements	100,000
Department of Wildlife and Parks	
Hillsdale Park Development	410,000
Land Acquisitions	90,000
Park Maintenance	150,000
State Water Plan Fund	2,000,000
Public Broadcasting Commission	
KHCC Expansion	68,000
Department of Revenue	
County Reappraisal Aid	3,000,000
Department of Education	
At Risk and Innovative Program Assistance	1,000,000
At Risk Academy	50,000
Kansas Cultural Heritage and Arts Centers	25,000
Vocational Education Capital Outlay	1,000,000
Vocational Education School Aid	500,000
Technology Innovation and Internship Program	500,000
Kansas Foundation for Agriculture	29,000
Kansas, Inc. — 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



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

Attach. 10

The Testimony of

Ted D. Ayres
General Counsel
Kansas Board of Regents

before
THE SENATE COMMITTEE ON FEDERAL AND STATE AFFAIRS
1992 Legislative Session

in re
Senate Concurrent Resolution 1638

11:00 a.m.
February 25, 1992
Room 254-E
Kansas Statehouse

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Chairperson Reilly and Members of the Committee:

My name is Ted D. Ayres and I am General Counsel to the Kansas Board of Regents. I am here this morning representing the Board of Regents.

I do not appear to take a position one way or the other in reference to continuation of the lottery. This important public policy decision must remain, initially with the Legislature, and, ultimately, with the voters of Kansas.

I am here to provide you with basic information that will perhaps be relevant and helpful as the Committee considers this issue. In fiscal year 1992, the Centers of Excellence (See Attachment 1) received approximately \$3.2 million from KTEC. Our universities also received approximately \$1.3 million in research matching grants. If these funds were eliminated without replacement, there is no question that valuable research efforts would cease with a detrimental impact on Kansas, the Regents Institutions, our faculty and students who currently benefit from these monies.

Centers of Excellence

KTEC Centers of Excellence are university-based research centers that serve the technical needs of Kansas businesses. Each of the five centers has its own technology focus and provides applied and fundamental research, product development, networking programs, training, seminars and technical consulting for client companies.

The Centers include: Center for Excellence in Computer-Aided Systems Engineering (CECASE) at the University of Kansas; Center for Research in Computer Controlled Automation (CRCCA) at Kansas State University; Center for Technology Transfer (CTT) at Pittsburg State University; Higuchi Biosciences Center (HBC) at the University of Kansas; and National Institute for Aviation Research (NIAR) at the Wichita State University.

Although each center serves a different industry and has a unique set of programs and organizational structure, each is meant to meet three objectives:

1. To build high quality research programs that are focused and comprehensive;
2. To develop and transfer technology to industry, and place center technology on the commercial market; and
3. To assist in the expansion of existing companies and the formation of new companies.

Each of the Centers has made tremendous progress in meeting the objectives set by KTEC, as measured by a comprehensive set of quantitative and qualitative criteria.

In 1983 the Kansas legislature created the Centers of Excellence program, and the Kansas Board of Regents authorized three centers. These centers are now known as the Higuchi Biosciences Center, the Center for Research in Computer-Controlled Automation, and the National Institute for Aviation Research. The Center for Technology Transfer was established in 1988 and the Center for Excellence in Computer-Aided Systems Engineering was established in 1989.

K.S.A. 74-8106 empowered KTEC to establish and evaluate Centers of Excellence, and award funding on a competitive basis. The "Qualification and Evaluation Criteria for Centers of Excellence" specifies KTEC's expectations for existing and proposed centers.

In FY 1990 KTEC appropriated \$2.45 million funding to five Centers of Excellence.

Following an independent peer review of the Centers, and an evaluation by the Center Committee, the following funding allocation recommendations were made: \$625,000 to the Center for Research in Computer-Controlled Automation; \$200,000 to the Center for Technology Transfer; \$900,000 to the Higuchi Biosciences Center; and \$575,000 to the National Institute for Aviation Research.

A fifth center, the Center for Excellence in Computer-Aided Systems Engineering at the University of Kansas, received initial funding of \$150,000 in October, 1989. The Center will focus its research on methodologies for computer-aided analysis and design of advanced engineering systems, and developing these methodologies and techniques into prototype software products.

A description of each Center and its 1990 accomplishments follow.

Center for Excellence in Computer Aided Systems Engineering (CECASE)

University of Kansas

CECASE was established at the University of Kansas in October of 1989 to meet the design and computer-aided systems engineering needs of Kansas companies.

Specifically, CECASE's purpose is to conduct multi-disciplined research into methodologies for computer aided analysis and design of advanced engineering systems, and to develop prototype software products.

In 1990 the Center received \$150,000 in core funding from KTEC. Joint research projects with industry and federal agencies added \$288,128 to its operating budget.

CECASE achieved and surpassed many of its goals and objectives.

Its first year goal for externally funded projects was \$50,000. The Center secured \$288,128 in matching funds from sponsors including AT&T, the Department of the Navy, and the People's Republic of Taiwan. CECASE initially began work with seven Kansas companies.

Nine grant proposals were written in FY 1990 and are under review for potential funding of \$1,976,555. These projects may create as many as 23 new jobs for its client companies.

(Continued on page 8)

In its first year of operation, the Center anticipated including eight researchers in its programs. The final tally for the year was 14 research associates from the departments of aerospace, civil, mechanical, chemical and petroleum, electrical and computer engineering, and computer science.

Center for Research in Computer-Controlled Automation (CRCCA)

Kansas State University

Focusing on research and technology transfer in integrated design, manufacturing and assembly, expert systems and advanced materials, this Center supports and collaborates with Kansas companies of all sizes to expand their services, manufacture new products and increase productivity.

CRCCA leveraged its core funding of \$625,000 with \$284,460 from industry and federal sources in FY 1990. More than 50 companies were contacted by its representatives with a total of 26 companies actively participating in projects with CRCCA.

Joint research stimulated by a KTEC Applied Research Matching Grant was initiated linking two Kansas companies—Master Machine Tool Company, Hutchinson, and Kraft Telerobotics, Overland Park—in designing and manufacturing a materials handling system. This system is an important component of the Integrated Design, Manufacturing and Assembly Laboratory, which was established by CRCCA in FY 1989.

FY 1990 accomplishments included:

- relocation of one company to Kansas from Minnesota.
- formation of two new companies as a result of interaction with CRCCA.
- twenty-five new technologies or industrial processes developed.
- six new patents filed or issued.
- assisted companies projected sales increases of \$13,500,000 and 1,600 new jobs during the next two years.
- the number of full-time Center employees increased by five, providing more direct engineering and marketing assistance to businesses.

Seminars

For the first time in Kansas, two technical seminars were held locally and broadcast to 12 remote Kansas sites via satellite with interactive voice communication. These seminars were originated and produced by the Kansas Regents Educational Communications Center.

Nearly 450 participants were in attendance at 10 seminars, workshops or conferences sponsored by CRCCA. Topics of interest included artificial intelligence, total quality management, and computer systems.



CENTERS COMMITTEE: (l-r) Timothy Donoghue, Vice Provost for Research and Dean of the Graduate School, Kansas State University, Manhattan; Sen. Norma Daniels, Valley Center; John Davis, President Fidelity State Bank, Garden City; Chairman Marianne Hudson, Vice President KTEC, Topeka; Rep. Rochelle Chronister, Neodesha; Robert Dougherty, P.E., President, Dougherty and Associates, Prairie Village; Robert Zerwekh, Associate Vice Chancellor, Research, Graduate Studies and Public Service, University of Kansas, Lawrence.

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Center for Technology Transfer (CTT)

Pittsburg State University

In its second year of operation, CTT continued to build its focus in woods, plastics, and printing. The Center's technology transfer, technical assistance and research programs help companies from a wide range of industries in design, testing, and development of prototypes, products and processing methods.

CTT has a special partnership with the Institute for Economic Development at Pittsburg State. The collaboration provides business clients access to management assistance, capital creation, and technology transfer expertise. Eleven companies who received technical assistance from CTT obtained financing for expansion with the help of the Institute.

CTT received enthusiastic praise from many of its business clients. One customer wrote that CTT's advice and assistance made the difference between proceeding or closing a project to develop a new product. Another wrote, "I was very impressed with the approach and attitudes of the people at CTT. In today's economic climate its nice to know that small businesses have access to expertise that, under normal circumstances, would be out of our reach."

CTT leveraged its core funding of \$200,000 with \$98,361 from in-kind gifts from industry.

FY 1990 accomplishments included:

- contact with 160 Kansas businesses.
- assistance to 98 companies through technology transfer projects and research reports.
- assistance to nine start-up businesses.
- one company relocated in Kansas after it received extensive technology transfer, training and marketing assistance.
- increased sales of \$100,000 for client companies and 51 new jobs reported by assisted companies. Seventy additional new jobs are projected during the next two years.

Seminars

The Center provided in-house training for two Kansas businesses. In addition, 104 participants attended five seminars on woods and plastics sponsored by CTT in FY 1990.

Higuchi Biosciences Center

University of Kansas

The Higuchi Biosciences Center (HBC), named after the late Professor Takeru Higuchi, includes the Center for Biomedical Research, the Center for BioAnalytical Research (CBAR) and the Center for Drug Delivery Research (CDDR). Plans are underway to establish a Center for Molecular Engineering and Immunology and complete feasibility studies for the Center for Drug Design, Metabolism, and Toxicity in FY 1991. A fifth and final center, the Center for Neuroscience Research may be added in future years.

During FY 1990, extensive contacts in the private sector led to nearly 40 opportunities for discussions and/or grants and contracts, of these, 26 were industry initiated, illustrating that HBC and its scientists can act as a magnet to draw new businesses to Kansas. HBC's principal industrial contact continues to be Oread Laboratories, Inc., Lawrence.

In FY 1990, HBC leveraged its core funding of \$900,000 with \$2,225,026 in industry and federal sources. HBC secured \$104,322 in equipment and in-kind contributions from industry. Four patents were filed as a result of technology transfer. Forty-nine full-time jobs were created and another 10 jobs are projected for FY 1991. Increased sales of \$1.3 million were reported due to 1990 activities.

Center for BioAnalytical Research

Established in 1983, CBAR develops methods to detect, identify and analyze trace amounts of biologically active compounds in living systems and environmental contaminants.

FY 1990 accomplishments included:

- technology transfer of a first generation biochemical substance to Oread.
- transfer of four specified bioanalytical techniques to Oread.
- collaboration with Shimadzu/Kansas Research Laboratory in developing advanced instrumentation to detect laser-induced fluorescence (LIF) and chemiluminescence. The latter product has been transferred to Oread.
- initiation of four new market-driven research projects. Three remain in the developmental stages, and the fourth has been transferred to Oread.
- establishment of dedicated labs including one devoted to initiating new projects and meeting technology transfer objectives.

(Continued on page 10)

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Center of Drug Delivery Research

CDDR's focus is research that leads to the development and commercialization of pharmaceutically-based products including drug delivery systems, prodrugs as drug delivery systems, and preclinical systems.

FY 1990 accomplishments included:

- initiation of seven market-driven research projects.
- raising nearly \$500,000 from federal and private sources for research.
- initiation of talks with 18 pharmaceutical companies to discuss research and service needs.
- effectively networking three new companies with Oread.

Results of 1989 Trade Mission to Japan

In November 1989, representatives of HBC participated in a trade mission to Japan, organized by the Kansas Department of Commerce. The team visited 13 companies. Since that trip, five companies have made return visits to meet with HBC management, scientists and tour its facilities.

Taisho Pharmaceuticals, Japan, is in the final stage of establishing a contract for research and development with the CDDR. A second company, Japan Tobacco, is considering contracting for CDDR's services.

Seminars

More than 60 participants attended two HBC-sponsored seminars on analytical reagents and new uses for macromolecules such as antibodies, enzymes and receptor proteins.

National Institute for Aviation Research (NIAR)

Wichita State University

To better reflect its mission to serve the nation's aviation industry, the Institute for Aviation Research officially changed its name to "National" Institute of Aviation Research in FY 1990. This change was announced at ribbon-cutting ceremonies and official opening of the new, 74,000 sq. ft. research facility on April 30. More than 700 guests gathered for the dedication which included keynote remarks from James Busey, Administrator for the Federal Aviation Administration (FAA).

Established as a Center of Excellence in 1985, NIAR responds to the research and advanced technology requirements of the multi-billion dollar aviation industry in Kansas and the nation.

The Institute has built a solid reputation of working with private industry as well as government in such areas as: aerodynamics and propulsion; aircraft deicing; stall/spin and other high angle of attack behavior; advanced manufacturing technology, producibility, and quality control; information systems and management issues in aircraft manufacture and operation.

To leverage NIAR's core funding of \$575,000 in FY 1990, it secured \$1,194,075 in matching funds from industry and the federal government. The Institute reported extensive industry contacts and participation with more than 75 companies plus an additional 18 individual entrepreneurs. NIAR reported the filing of one patent in FY 1990.

Other FY 1990 accomplishments included:

- selection as a "national" research institute.
- addition of four new employees and involvement by two additional faculty of the Business School.
- the co-location of all departments and laboratories in one facility.
- a major contract approved with the FAA for Phase I of an international aircraft operator database project.
- a cooperative research agreement with the Flight Research Laboratory at the University of Kansas. In addition a joint project is underway with Kansas State University and the University of Karlsruhe, Germany.
- participation in the QUEST partnership to provide opportunities for education and training in quality for industry.
- 31 feasibility studies completed by two product development engineers employed by the Center for Productivity Enhancement.

Seminars

More than 1,100 participants attended 19 different conferences, workshops and seminars provided by the Institute. Seminar topics included CAD/CAM, composites and total quality management.

Attach. 11

Barbee & Associates

810 Merchants National Bank — Topeka, KS 66612

(913) 233-0555
FAX (913) 357-6629

DATE: February 25, 1992

TO: Senate Federal and State Affairs Committee

Senate Concurrent Resolution 1638

Mr. Chairman, members of the Senate Federal and State Affairs Committee, I am Nick Roach, Director of Corporate Accounts with Barbee and Associates. Some of the Committee Members will remember me from nine years of testimony, on various topics, as the State Director of Purchases.

I am here today as an opponent to SCR 1638, speaking on behalf of our client, International Game Technology, which is a manufacturer of Video Lottery terminals. Having been a statutory member of The Kansas Lottery Procurement Negotiating Committee, I am admittedly an advocate of and for The Kansas Lottery, but I also believe that Kansans want to keep their Lottery. In 1986, only 16 counties voted against The Lottery, and in 8 of those 16 counties, 47% or more of voters voted for The Lottery. The Kansas Lottery provides entertainment, along with financial reward, to Kansans every day. A quick look at the billboard on the southwest corner of 10th and Topeka will attest to that. It is far more likely that half of those 16 counties would vote for The Lottery, than it is that the citizens and taxpayers of Kansas would vote to repeal The Lottery.

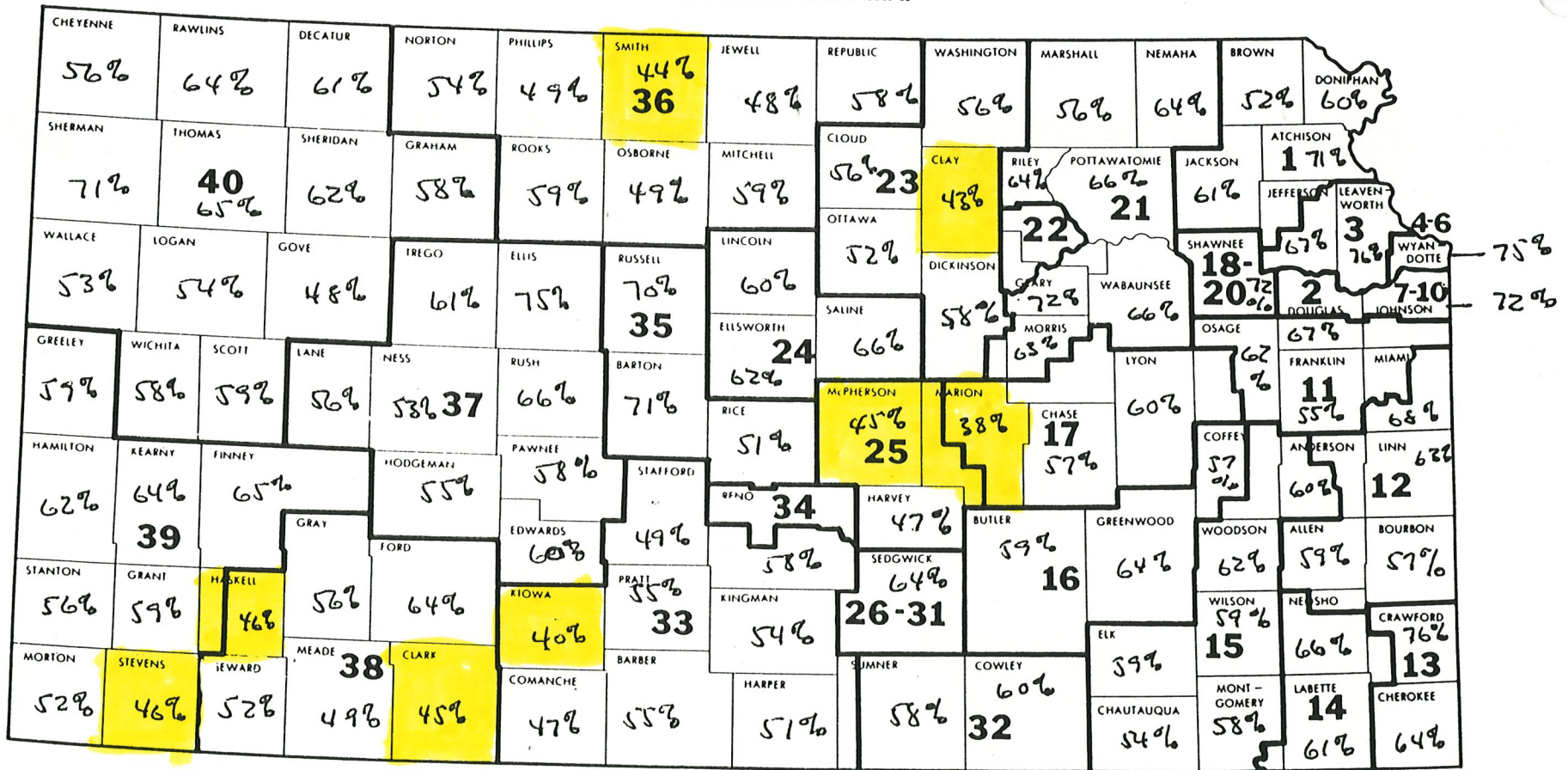
The difficulty of replacing the transfers made by The Lottery to the State of Kansas is an issue which is significant. Since Fiscal Year 1988, and through January, 1992, The Kansas Lottery has transferred almost \$90,000,000 to the State of Kansas. Not even the opponents of The Lottery want to think in terms of an increase in taxes to offset an average of \$18,000,000 per year.

I have attached some supporting data for your review as you consider SCR 1638.

Att. 11
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1986 LOTTERY RESULTS

KANSAS SENATE DISTRICT MAP



Source: Kansas Legislative Research Department

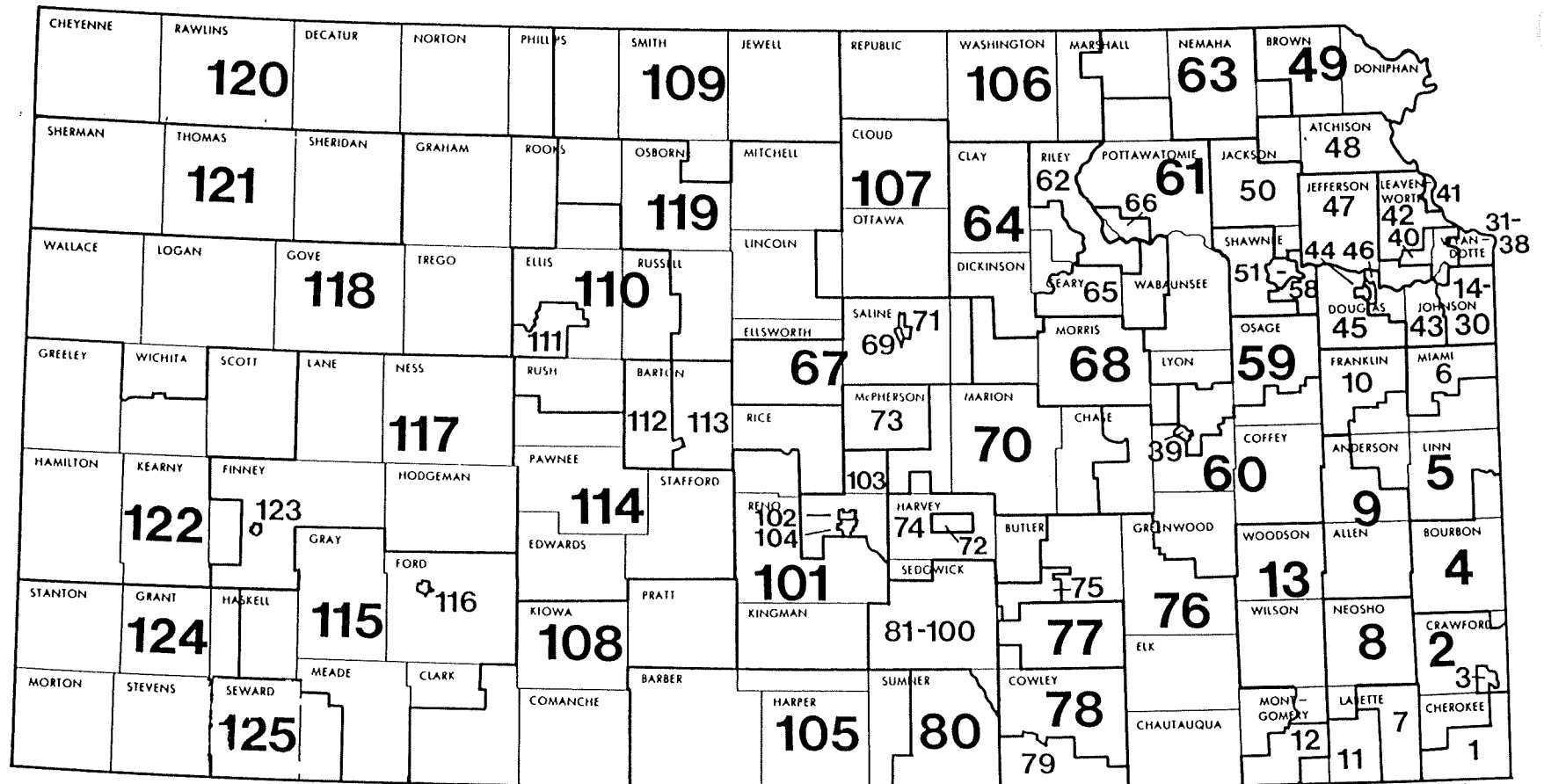
Map by Institute for Public Policy and Business Research, University of Kansas

Senators by Districts

- | | | | | |
|---------------|--------------|----------------|---------------|--------------|
| 1. Sallee | 9. Burke | 17. Karr | 25. Harder | 33. Kerr, F. |
| 2. Winter | 10. Bogina | 18. Petty | 26. Francisco | 34. Kerr, D. |
| 3. Reilly | 11. Allen | 19. Parrish | 27. Morris | 35. Ehrlich |
| 4. Strick | 12. Walker | 20. Salisbury | 28. Feleciano | 36. Lee |
| 5. Kanan | 13. Martin | 21. Montgomery | 29. Anderson | 37. Moran |
| 6. Steineger | 14. Brady | 22. Oleen | 30. Yost | 38. McClure |
| 7. Langworthy | 15. Thiessen | 23. Doyen | 31. Daniels | 39. Hayden |
| 8. Bond | 16. Gaines | 24. Vidricksen | 32. Rock | 40. Frahm |

9-17-11
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KANSAS HOUSE DISTRICT MAP



Map by Institute for Public Policy and Business Research, University of Kansas

Source: Kansas Legislative Research Department

Representatives by Districts

- | | | | | | | | |
|------------------|----------------|--------------|---------------|----------------|---------------|-----------------|-----------------|
| 1. Shallenburger | 17. Benlon | 33. Edlund | 49. Weiland | 65. Scott | 81. Cozine | 97. Webb | 113. Wempe |
| 2. Roper | 18. Amos | 34. Watson | 50. Smith, M. | 66. Hochhauser | 82. Baker | 98. Gjerstad | 114. Minor |
| 3. McKechnie | 19. Kline | 35. Jones | 51. Hamilton | 67. White | 83. Pottorff | 99. Wagle | 115. Neufeld |
| 4. Gregory | 20. Douville | 36. Johnson | 52. Cates | 68. Wiard | 84. Lawrence | 100. Sluiter | 116. Smith, D. |
| 5. Teagarden | 21. Allen | 37. Reardon | 53. Everhart | 69. Turnquist | 85. Lahti | 101. Krehbiel | 117. Jennison |
| 6. Barkis | 22. Sader | 38. Love | 54. Roy | 70. Goossen | 86. Helgerson | 102. Whiteman | 118. Mollenkamp |
| 7. Correll | 23. Blumenthal | 39. Lowther | 55. Wagnon | 71. Lynch | 87. Fuller | 103. Harder | 119. McClure |
| 8. Reinhardt | 24. Thompson | 40. Ramirez | 56. Sebelius | 72. Boston | 88. Welshimer | 104. O'Neal | 120. Gatlin |
| 9. Ensminger | 25. Lane | 41. Graeber | 57. Gomez | 73. Sprague | 89. Cribbs | 105. Long, J.C. | 121. Crumbaker |
| 10. Hendrix | 26. Snowbarger | 42. Stephens | 58. Hensley | 74. Samuelson | 90. Cornfield | 106. Bryant | 122. Hayzlett |
| 11. Garner | 27. Brown | 43. Macy | 59. Wells | 75. Corbin | 91. Bishop | 107. Campbell | 123. Heinemann |
| 12. Empson | 28. Patrick | 44. Praeger | 60. Freeman | 76. Crowell | 92. Grotewiel | 108. Hamm | 124. Shore |
| 13. Chronister | 29. Vancrum | 45. Solbach | 61. Rezac | 77. King | 93. Bowden | 109. Roe | 125. Holmes |
| 14. Parkinson | 30. Weimer | 46. Charlton | 62. Glasscock | 78. Flottman | 94. Bradford | 110. Dawson | |
| 15. Hackler | 31. Wisdom | 47. Flower | 63. Larkin | 79. Rock | 95. Sawyer | 111. Gross | |
| 16. Carmody | 32. Dillon | 48. Adam | 64. Lloyd | 80. Miller | 96. Dean | 112. Mead | |

Att. 11
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KANSAS LOTTERY

To Date Activity 01/31/92

Net Sales

FY 88	\$65,804,532
FY 89	68,188,022
FY 90	64,530,640
FY 91	70,340,632
FY 92	<u>45,086,384</u>
To Date Total	\$313,950,210

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>2,384,325</u>
To Date Total	\$16,589,568

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>21,361,081</u>
To Date Total	\$147,230,142

Transfers To State

FY 88 *	\$11,343,321
FY 89	24,500,950
FY 90	19,259,917
FY 91	21,096,425
FY 92	<u>13,525,915</u>
To Date Total	\$89,726,529

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

FY 91 & 92 UNAUDITED

Projected Sales & Transfers

Through Fiscal Year 1992

Sales	\$343,863,826
Transfers	98,700,614

Att. 11
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Many questions have been asked regarding the use of the money. Below is a detailed breakdown of allocations from the Economic Development fund for the 1992 fiscal year.

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

Att. 11
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