

Approved April 7, 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 March 5, 1992 in Room 254-E of the Capitol.

All members were present except:  
Sen. Ward was excused

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 attached list

Others attending: See attached list

Sen. Reilly called the meeting to order and called on Mary Galligan to brief the committee on SB 695 (Attachment 1). Sen. Reilly reminded the committee of the penalties for misdemeanor and felony offenses.

Sen. Reilly introduced Jonathan Small, representing the Kansas Alliance for Video Lottery and Kansas Automatic Merchandising Association. Mr. Small introduced the following people who gave testimony as proponents on SB 659:

Bob Williams, director of Consulting, Video Insights, Sioux Falls, South Dakota, (Attachment 2);

Dr. William Terrell, Associate Professor of Economics, Wichita State University, (Attachment 3).

Sen. Reilly asked Stan Chilton and Charles Yunker to return tomorrow with their testimony.

The meeting adjourned at 12:00.

GUEST LIST

COMMITTEE: Senate Federal & State Affairs

DATE: 3-5-92

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Carolyn Tillotson	Leavenworth	City of Leav.
Dorey Graham	Leavenworth	
Joni Stevens	Leavenworth	
Vada Johnson	Leavenworth	
Bill McKeola	Las Vegas	Universal Detail
Bob Williams	Sioux Falls SD	Video Insight
WILLIAM T TERRELL	NICHITA	KAMA
GRANT M. O'Leary	Topeka	Heartland Progress
Dorothy L. Sutton	Topeka	Kansas Lottery
Nick Roach	TOPEKA	IGT
Robert Engler	"	ABC
Jim KEELE	PAOLA	BLE
DON LINDSEY	OSAWATOMIE	UTU
Albert D. Kollar	TOPEKA	LOTTERY RETAILERS <sup>ASSOC</sup>
James J. Marley	Topeka	McGuffey Assn / GTE
Whitney Damon	Topeka	McGuffey Assn / WAT
Jim Conant	"	ABC
John Roberts	Topeka	Kansas Lottery
George Barber	Topeka	IGT
Mick D. Riemer	NEVADA	IGT
Les Bahr	Topeka	4th Enrollment USD's
Bill Benton	Topeka	IGT
Carl Anderson	Topeka	Kansas Lottery
Chris Steinger	K.C., KS.	K.C. KS.
ALAN ANDERSON	TOPEKA	KANSAS AUTOMATIC MERCH. ASS'N



Attac 1

MEMORANDUM

Kansas Legislative Research Department

Room 545-N - Statehouse  
Topeka, Kansas 66612-1586  
(913) 296-3181

March 6, 1992

To: Senate Committee on Federal and State Affairs  
From: Mary Galligan, Principal Analyst  
Re: 1992 S.B. 695

The bill would authorize the State Lottery to conduct video lottery games. The bill also would establish a distribution system for those games, allocate net revenue from video lottery games, and define certain crimes.

The bill defines video lottery machine and would authorize the Lottery Commission to designate which games would be allowed. Bingo, poker, blackjack, and keno are mentioned in the bill, but other games could be approved by the Commission. Under this definition, legal video lottery machines would not dispense coins, cash, or tokens.

Video lottery machines could be placed only in liquor stores, clubs and drinking establishments, cereal malt beverage (CMB) retail establishments, and at the State Fair. The bill would establish restrictions on placement of those machines. They could only be placed:

- in a club or bar at a racetrack;
- anywhere in a bar, club, or drinking establishment that derives at least 30 percent of annual gross receipts from liquor sales; or
- in an area of a restaurant, club, or drinking establishment as long as 30 percent of gross receipts in that area are from liquor sales and if access to that area is limited to persons over the age of 21 or persons accompanied by someone over 21.

Only ten video lottery machines could be placed in an establishment; however, there would be no limit on the number of machines placed in a licensed establishment at a racetrack or at the State Fair.

The bill would establish a \$2 maximum allowable charge for a single game and \$1,000 as the maximum value of free games and credits per game. Retailers would be required to pay all credits resulting from video lottery machine play.

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Persons under the age of 21 could not play video lottery games. Allowing an person under 21 years of age to play would be a class A misdemeanor for the first violation and a class D felony for the second and subsequent violations. Persons under 21 would be guilty of a class A misdemeanor or violation of the juvenile code if they play video lottery machines or unlawfully enter a restricted area.

Video lottery retailers would be required to meet qualifications for and hold a certificate to sell instant lottery tickets. The Commission would be authorized to adopt rules and regulations concerning the nature and extent of background investigations required of applicants for video lottery retailer certificates.

The state's share of net video lottery machine income (gross, less prizes) and fees, less operating expenses would go to the State General Fund. The state's share of net revenue would be 40 percent. Retailers and operators would each get 30 percent of net.

Video lottery machines not certified by the Lottery would become illegal and possession of those machines would be a class D felony. Noncertified machines would be contraband and subject to confiscation. Only machines certified by the Lottery would be permitted at licensed establishments (liquor stores, CMB retailers, clubs, and drinking establishments). Only the Lottery or a certified manufacturer, distributor, operator, or video lottery retailer could possess a video lottery machine. Other persons found guilty of possession of video lottery machines would be guilty of a class A misdemeanor on the first offense and a class D felony for second and subsequent offenses.

Maximum one-time application fees and annual certification fees are set for manufacturers, distributors and operators. Eligibility requirements for manufacturers, distributors, and operators are essentially the same as existing requirements for lottery retailers except that operators would have to be Kansas residents.

A multi-tier distribution system is established in which manufacturers and distributors could not be or have a financial interest in an operator or licensed establishment. Manufacturers could be distributors. Operators could not be or have a financial interest in a manufacturer, distributor, or retailer. Video lottery retailer owners and managers could not be or have a financial interest in a manufacturer, distributor, or operator.

INTRODUCTION

My name is Bob Williams. I am Director of Consulting for Video Insights, a division of Musivend, Inc. based in Sioux Falls, S.D.

See T-1: Video Insights Logo

I'm here today to tell you about South Dakota's success with video lottery. I am not a lobbyist. I served eight years in the South Dakota Senate. Following my tenure in the legislature, I re-entered private business and worked in various public relations capacities for 25 years.

Since 1986, when South Dakota voters passed a statewide referendum legalizing a state lottery, I have been involved in almost every aspect of the video lottery industry: Collections; route operations; system design, accounting and auditing. I have worked with machine owners, machine operators, establishment owners and the various state regulatory agencies: The State Legislature, the South Dakota Lottery and the Lottery Commission.

Because I see the lottery system in operation every day, I have gained tremendous respect for the system developed to oversee and maintain the security and integrity of video gaming in South Dakota. I am especially impressed with the

sophistication and reliability of the state accounting and auditing system.

I have also seen the positive impact video lottery has had on South Dakota's economy. Not only has the state earned millions of dollars in new tax monies through the lottery, but the economies of large cities and small towns have benefitted as well.

See TIA: Video Lottery Wheel

But the person this system was designed for, the person this elaborate system of checks and balances protects, is the player. Whether a player decides to invest his or her entertainment dollars in video lottery today or six months from today, that dollar is protected every step of the way.

When a player plunks four quarters into a video lottery machine, he or she knows that there will be a maximum percent return on that dollar investment. Players have the choice to take their money out or leave it there at any point.

The system that protects each player and assures that 92 percent payout consists of three more players: the operator, the location owner and the state of South Dakota. I look at the whole scenario as a giant wheel, rolling along the highway. The hub of the wheel is the player, of course. Farther out along the spoke, offering the first layer of

stability to the hub is the operator. The operator purchases and services the video lottery equipment and ensures that machines maintain constant contact with the state's Central Control System.

The next layer of protection, and farther out along the spoke is the location owner. This location owner invests in atmosphere: providing the clean, bright environment for the player and kick-starting an sluggish economy through loans, improvements, payrolls and more.

And finally, encasing the whole wheel in a layer of protection and keeping it rolling smoothly and safely along the road, is the state of South Dakota, maintaining a link with every video lottery machine in the state. The state's Central Control System guarantees that every dollar invested in video lottery in this state is accounted for, taxed and the state's share electronically deposited every 15 days.

So you see, during every rotation of the lottery wheel, the hub -- the player -- is protected and the video lottery's integrity guaranteed by the operator, the location owner and the state of South Dakota.

We in South Dakota realize that the success of video lottery is dependent upon the player's satisfaction and trust.

To give you a little background about South Dakota's situation before the advent of video lottery, let me tell you



this. We have a population of less than 700,000. We have no corporate income tax. We have no state income tax. We have no personal property tax. When people hear this, they scratch their heads and ask, "What is your state running on?" Ethanol, for one thing. But the primary answer -- as you can imagine -- is sales tax, bank franchise tax and, on the local level, the ever unpopular, always-rising property tax.

In years past we've had to offer tax abatements or provide scarce upfront investment dollars to out-of-state businesses as incentives to bring new jobs and income to South Dakota. Every year the legislature searched for new sources of revenue. Now we've been able to develop a whole new revenue source through video lottery that trickles its way down through all aspects of our economy.

In 1989 and 1990, video lottery was responsible for injecting more than \$10 million dollars into our treasury. 1991 brought \$24 million more. We didn't raise taxes. The state simply began collecting its share of video lottery proceeds. The \$10 million dollars -- or an average of more than \$200,000 a week in new available dollars -- helped fund ongoing and new state programs.

What's more, state sales tax revenues exceeded estimates by \$13 million during the last fiscal year. A recent comprehensive study conducted by Policy Research Associates Inc. of New York and the University of South Dakota shows that video lottery has added 3,000 new jobs in South Dakota.

Video lottery has created 500 jobs just in Sioux Falls -- the state's largest city -- plus it contributed \$24 million to the Sioux Falls economy in one year and led to \$2 million in new construction in the city.

The study estimated that average yearly earnings for new employees in eating and drinking establishments reached \$12 million. Video lottery vendors, too, have added employees in the past few years. Total employee earnings generated within this segment of the industry amounts to \$5.5 million yearly. State Lottery employees who work in administration, sales, computer information systems and operations earned \$1.13 million in fiscal year 1991. So, all told, video lottery accounts for at least \$22 million in additional earnings through eating and drinking establishments, vendor-operator businesses and government.

Because of video lottery's unmatched success and the millions of dollars pumped into the state's economy and needed programs, it's easy to forget the most important ingredient in the formula's success. As I mentioned earlier, that crucial ingredient is the player. If the player feels cheated by machines with low payouts or a system that can't be trusted, it doesn't make any difference who runs the operation. Players will take their entertainment dollars elsewhere.

South Dakota took great pains to make sure that didn't happen. We managed to form a partnership that provides players with a trustworthy game and a lot of enjoyment. I consider the public-private relationship to be a resounding success. In return for a daily computerized reckoning, the state receives not only a new 35 percent tax, but a solution to its vexing ongoing taxation problems. The private sector purchases and maintains machines, knowing that the long-term investment can payoff.

There are many advantages to South Dakota's public-private video lottery relationship. A recently completed study compared lottery systems in place in three Canadian provinces with South Dakota's. The study showed that operator-run video lotteries -- like South Dakota's -- average about 75% more income for everybody involved than state-run video lotteries. Experts partially attribute this to the vast experience operators have gained over the years as amusement vendors. Operators have come to know their clients, service their machines promptly and spend a lot of time in direct marketing.

Experts also say that start-up costs are lessened in operator-run lotteries. Most operators have already invested in employee training, machine installation and repair while the state has had no experience. Also, the state does not have to ante up the initial investments in machines and

associated costs such as marketing, sales, service, payroll, insurance, vehicles, phone lines, etc.

There is no danger of losing control in such an environment. South Dakota's experience shows that strong state control through comprehensive background checks of all licensees, investigations of all machine manufacturers, a computerized link with all machines for play information and an automatic bank withdrawal of state taxes ensures that all video lottery activity is known to state officials.

Now that you've heard some of the background, let's look at some of the specifics of the South Dakota story.

See T-2: Timeline

In 1986, voters passed a statewide referendum to amend the state Constitution and allow the Legislature to authorize a state lottery to be regulated, controlled, owned and operated by the state in conjunction with private vendors.

The next year, the Legislature passed a bill to establish the South Dakota Lottery as an independent state agency under the direction of a commission appointed by the Governor and confirmed by the Senate. An executive director -- appointed by the Governor, approved by the Senate and supervised by a seven-member Lottery Commission -- administers the lottery. The South Dakota Lottery is solely

responsible for overall management of the state lottery and control over the operation of games. The Legislature set forth comprehensive requirements to preserve the integrity and security of the state lottery, including, but not limited to:

See T-3: Legislative Requirements

Qualification standards and background investigations of vendors and licensees; management responsibilities of the executive director's transfer of net proceeds to the state general fund; penalties for violations of lottery laws; and the rule-making authority of the Lottery Commission.

See T-2 Again: Timeline

In 1989, the law was expanded from scratch tickets to include video lottery games on video lottery machines authorized by the Commission. The Legislature again set forth requirements to license video lottery machines which included:

See T-4: Additional Legislative Requirements

Randomness of play, operation of only those video games licenses and authorized by the Commission; meters and accounting software that maintain permanent records of play transactions; ticket voucher printing and dispensing criteria; coin and bill mechanisms designed to prevent manipulation; and the capability to communicate through linkage with a central communications system to provide direct auditing and security control functions as approved by the Commission.

The legislation placed restrictions on the amounts that can be wagered and won, placement of video lottery machines; age limits and legal hours of machine play; and penalties for tampering and intending to manipulate the machine's operation.

The Lottery adopted 59 pages of rules to cover all interested parties. Since policing video lottery was a whole new ball game and there wasn't another one in the whole world to copy, it is pretty amazing that the rules were acceptable in most situations. When there were strong differences of opinion, owners and operators worked in a spirit of cooperation with the state Lottery staff to make the system manageable, fair and secure.

To ensure the system's security, the South Dakota Lottery thoroughly tests and examines prototypes of video

lottery machines submitted by licensed manufacturers. No video lottery machine may be transported into the state unless the machine has met all statutory and regulatory requirements.

In order to carry out its statutory requirements, the South Dakota Lottery has installed and implemented an impressive video lottery central control system.

See T-5: SD Map -- State Central Control System

State Central Control System

One of the keys to video lottery's huge success in South Dakota, as far as I'm concerned, is the State Central Control System. It is comprised of computer hardware and software programs designed to extract, store and assimilate daily monetary and game play transactions for each video lottery machine in the state. The Central Control System provides the Lottery with complete control over the operational status of each video lottery machine located in licensed establishments statewide. As a prerequisite to licensing, each video lottery machine must be able to communicate with the Central Control System. This is accomplished through a high-tech communications protocol program that provides all required information to the Central Control System from each machine.

Every video lottery machine is linked electronically to the State Central Control System. Video lottery machines are

inoperable without enrollment and direct link with the system. The system in Pierre also has the capability to disable any machine in the state at any time. For example:

The state audits every machine in the state each night. If the terminal doesn't connect or, for some reason fails to communicate with the State Central Control System, the state sends a non-reporting terminal a report that looks like this:

See T-6: Non-Reporting Terminals

The machine owner or operator has 24 hours to fix the problem and report back to the State Central Control System. If communications are not re-established when the state attempts a second connection, the machine automatically shuts down.

The State Central Control System is an automatic tax collector. Here's how it works.

See T-7: How It Works

First, the operator withdraws the money from the machines at each establishment. At the same time, the state begins its electronic audit of the establishment. Let's look



at an example of the audit report which the state system generates each night for each machine.

See T-8: Audit Ticket

This ticket serves as the master voucher for each machine. It tells the state and the machine owner or operator everything they need to know about that particular machine, including the establishment, address, permit number, machine or terminal number, time and date of the audit.

Then we move down to the number of coins in (in .25 credits), bills in (in credits), total credits in, total credits out and the net income in credits for that machine for that day. This side lists the cumulative figures for that machine. This side lists the figures for that particular collection cycle which, again, is every day.

The next figures are part of the State Central Control auditing system and owners and operators don't even know what they mean. The bottom figure is the number of times the state has communicated with that machine.

Then the machine totals are broken down by games played on that machine that night: number of games played and won and number of credits played and won. Then come the totals.

See T-9: Logic Access Ticket

This ticket tells the state and the machine owner or operator whenever someone enters the accounting system. Whenever there has been a legal entry into the Logic or cash box system, the technician logs it into a permanent record, along with the reason for entry. This must jibe with the logic access ticket produced by the State Central Control System.

See T-7 Again: How It Works

The operator deposits the money in the bank and, because everything is accounted for electronically, the state knows exactly how much money should be in that deposit. The state then automatically withdraws its 35% share every 15 days and deposits it in the General Fund. The state has complete control over the security, integrity and accountability of the system through its hardware, software and communications system. It becomes a safe, accurate, dependable tax collector.

Let's look at the numbers.

See T-10: Number of Machines

As you can see, the number of machines has steadily increased from 800 machines in October 1989 to 5203 by the end of March 1991 and 6,270 today. Looking at the next graph,

See T-11: Daily Income Per Terminal

As indicated, the daily income per terminal has started to level off at a slightly lower dollar amount than in the second quarter of legalization. It was during the second quarter that daily income per terminal was at its height. For comparison, however, note that the number of machines operating in March 1990 was about 2,850, averaging approximately \$82 net per machine per day. The number of machines operating in March 1991 was about 5,200, averaging approximately \$63 net per machine per day. In September, with 6160 machines operating, the average net per machine per day dropped to \$55.28. By February 8, 6270 machines averaged \$61.40 per machine per day.

The next graph will show a very painless way to collect a lot of money for your state's benefit: The state's share of the weekly revenue.

See T-12: State's Share

Revenue is audited daily, collected electronically from the bank every 15 days. In South Dakota, state revenues reached an all-time high during the monthly reporting period -- March 1991 -- with an average weekly revenue for the state of \$568,792. In fiscal year 1991, our net revenue was approximately \$106.6 million, with the state's share increasing to an estimated \$24 million. So far in fiscal year 1992, the state has collected just over \$20 million with more than a quarter of the year yet to go.

See T-13: Total Revenues for 1990

In 1990, the net revenue from South Dakota machines was \$46.2 million. The state's share in 1990 was \$10.3 million in new revenues. These were private sector business people, willing to take a risk and in most cases with borrowed money, who entered a partnership with the public sector in hopes of generating new dollars for everybody. To date, the private sector has invested \$40 million in 24 months in terminals alone. These business people have also spent hundreds of thousands of dollars in capital improvements, using South Dakota labor and financing.

Our economy is no longer dependent on giving no-interest or low-interest loan incentives to out-of-state businesses to lure them to South Dakota. We didn't have to offer land or put up buildings or fork over investment or venture capital to entice businesses here.

The partnership works like this. The South Dakota State Lottery is owned and controlled by the State of South Dakota while the equipment is owned and serviced by South Dakota businesses licensed by the state. Video Lottery companies and locations employ many people, often at above average wages. Local businesses operate and maintain the lottery equipment in their areas. Money spent on operations and maintenance recirculates through the local economy.

Many small food, beverage and entertainment establishments have been able to stay in business or upgrade quality by introducing video lottery onto their premises. One of the greatest values we have found in the video lottery's effect on our state's economy is that it can reach rural areas often ignored in state economic development efforts.

For instance, video lottery operators support a payroll of about \$5.5 million. The citizens on this payroll buy food at grocery stores, gas at local stations, clothing at nearby stores, and pay property taxes like the rest of us. They also borrow money from local banks to buy homes or improve the ones they already own.

There have been questions about whether video lottery attracts an unwanted element. Although our experience with the video lottery is still too young to draw hard and fast conclusions, we believe that video lottery has attracted some illegal gambling dollars and turned them into legal revenues for South Dakota. Because our machines are secure and audited daily and each owner and operator passes a rigorous background check, we have eliminated any possibility of skimming or money laundering.

Because some were concerned about video lottery's effects on South Dakota's social structure, the 1991 gambling study focused on this area. The scientific study showed that less than 2% of South Dakota's population can be identified as problem or pathological gamblers and that these people were more apt to borrow money from relatives than to write bad checks to gamble or pay gambling debts. The study also illuminated few other problems that can be linked to gambling. For instance, social programs such as welfare, food stamps and aid to dependent children are unaffected and no link can be drawn to divorce rates or property foreclosures. In an even more surprising comparison, crimes such as child abuse, robbery, burglary, larceny and motor vehicle thefts either remained the same or fell from 1989 to 1990, the year before the advent of gambling and the year it began.

See T-14: Total Revenues for 1991

In fiscal year 1991, our net revenue was approximately \$106.6 million with the state's share increasing to about \$24 million.

We anticipate that fiscal year 1992 will be even better for the player, the state and private industry. In July 1991 alone, players spent just over \$9.2 million and provided \$2.3 million for the state of South Dakota. By Feb. 8, 1992, the state had collected just over \$20 million.

See T-15: Comparison of State Owned/Operator Run System  
and State Owned/State Operated System

The revenue generated annually isn't a fluke. South Dakota's successful system is based upon a fairly simple yet effective division of duties. You will note that duties are pretty evenly distributed in the State Owned/Operator Run Video Lottery System we have in South Dakota. If you actually break down the responsibilities to make this system run smoothly, the state is called upon to fulfill only three major chores: The state investigates and licenses vendors, audits each terminal daily and collects tax revenue every 15 days through the Central Control System. Meanwhile, the operator is responsible for assuming the debt and risks associated with investing in additional terminals, equipment,

transportation, personnel and communications; management and servicing of equipment up to 20 hours per day; placement and merchandising of equipment; collection from each location; security of the collected proceeds to be remitted to state; and acts as a buffer between the state and thousands of locations. Location owners ensure that only qualified players participate in the lottery; provide cash for payout of winnings; provide prime space for equipment and a pleasant atmosphere; and provide overall service to players. Most importantly, the player provides the entertainment dollar and trust in the integrity of the system, spawning not only a new revenue source, but a boost to a sagging economy.

The State Owned/Operator Run System is contrasted with the system shown below: The State Owned/State Operated System. Under this system, all of the duties assigned to the operator are moved over under the state's list of responsibilities and the operator is completely removed from the equation. It is because of this shift -- removing one of the layers of protection afforded in a video lottery system -- that the state assumes all of the risks and millions of dollars of start-up costs plus a whole network of service-oriented expenditures that under South Dakota's system became the worries of the operators who have been in the entertainment business for many years. The duties for the location owners and players remain the same.



Earlier today I mentioned the scientific study that compared the State Owned/State Operated lottery systems operating in Newfoundland and Nova Scotia with the State Owned/Operator Run lottery system adopted by both South Dakota and New Brunswick. The study found that 75% more income was generated by the State Owned/Operator Run systems than was generated by the State Owned/State Operated systems. In other words, South Dakota's four-way split in responsibilities is not only more efficient by spreading out the risk, but more reassuring to players.

Thank you for giving me the opportunity to tell you the South Dakota story. We hope that your state will be able to benefit from South Dakota's video lottery experience.

Attach 3

PROJECTED VIDEO LOTTERY REVENUES IN KANSAS  
A SUMMARY STATEMENT

by

William T. Terrell  
Associate Professor of Economics  
Wichita State University

March 5, 1992

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

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

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

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

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

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

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

TABLE 1

## SOUTH DAKOTA VIDEO LOTTERY REVENUES

## SOUTH DAKOTA FISCAL YEARS

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

## SOUTH DAKOTA 52-WEEK YEARS

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

## NOTES:

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

Source: Appendix Tables 1 and 2.

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TABLE 2

## KANSAS PROJECTED VIDEO LOTTERY REVENUES

## KANSAS FISCAL YEARS

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

## KANSAS 52-WEEK YEARS

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

## NOTE:

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

Source: Text and text Table 1.

APPENDIX TABLES AND FIGURES

- Table 1: Weekly Record of South Dakota Video Lottery
- Table 2: Monthly Record of South Dakota Video Lottery
- Figure 1: South Dakota Number of Terminals Weekly
- Figure 2: South Dakota Weekly Net Machine Income  
Per Terminal
- Figure 3: South Dakota Monthly Prizes as a Per Cent  
of Total Cash In

APPENDIX TABLE 1

WEEKLY RECORD OF SOUTH DAKOTA VIDEO LOTTERY

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

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

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## WEEKLY RECORD OF SOUTH DAKOTA VIDEO LOTTERY

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

APPENDIX TABLE 1  
WEEKLY RECORD OF SOUTH DAKOTA VIDEO LOTTERY

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

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

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APPENDIX TABLE 2

MONTHLY RECORD OF SOUTH DAKOTA VIDEO LOTTERY AND FISCAL YEAR TOTALS

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

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

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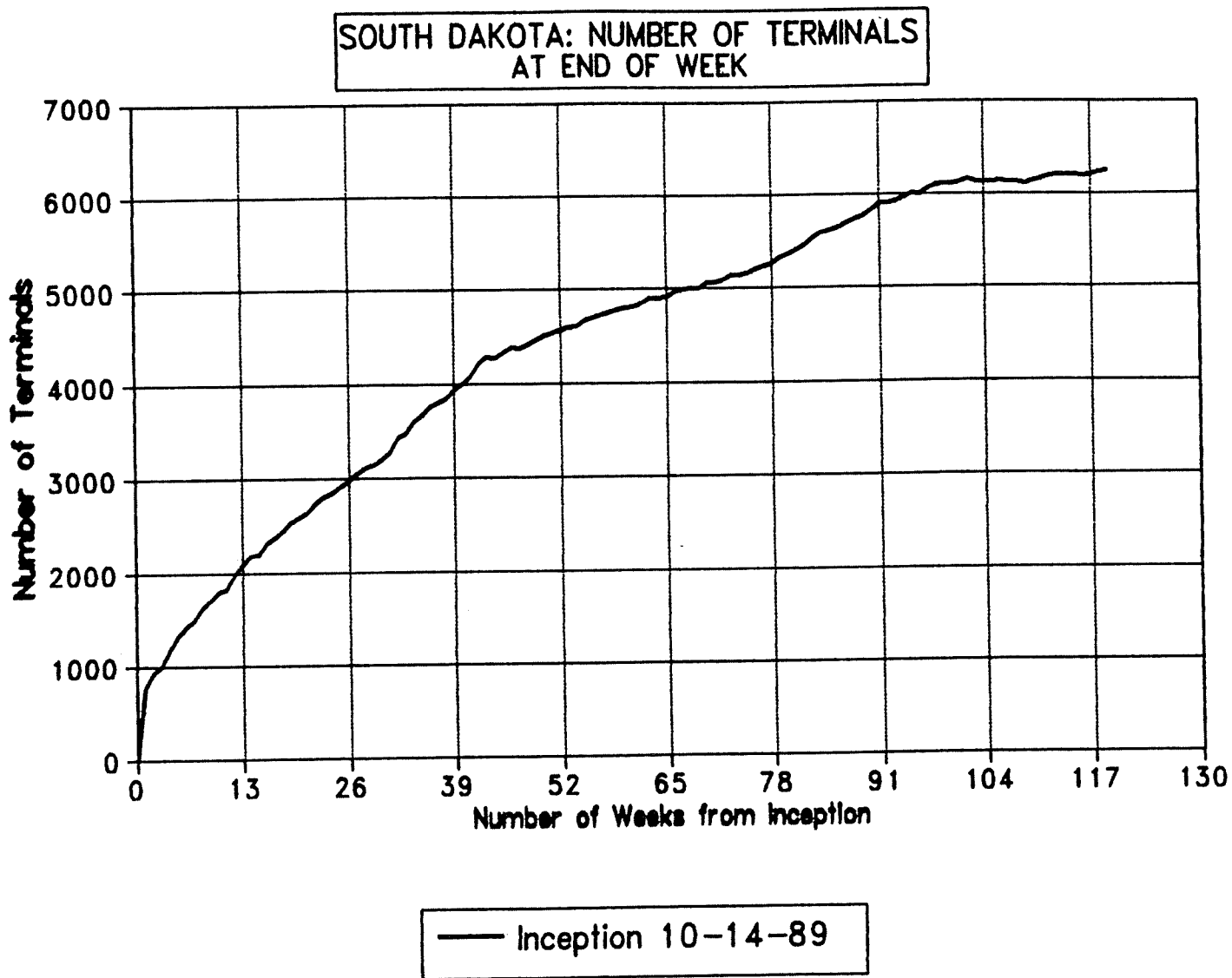
APPENDIX TABLE 2

MONTHLY RECORD OF SOUTH DAKOTA VIDEO LOTTERY AND FISCAL YEAR TOTALS

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

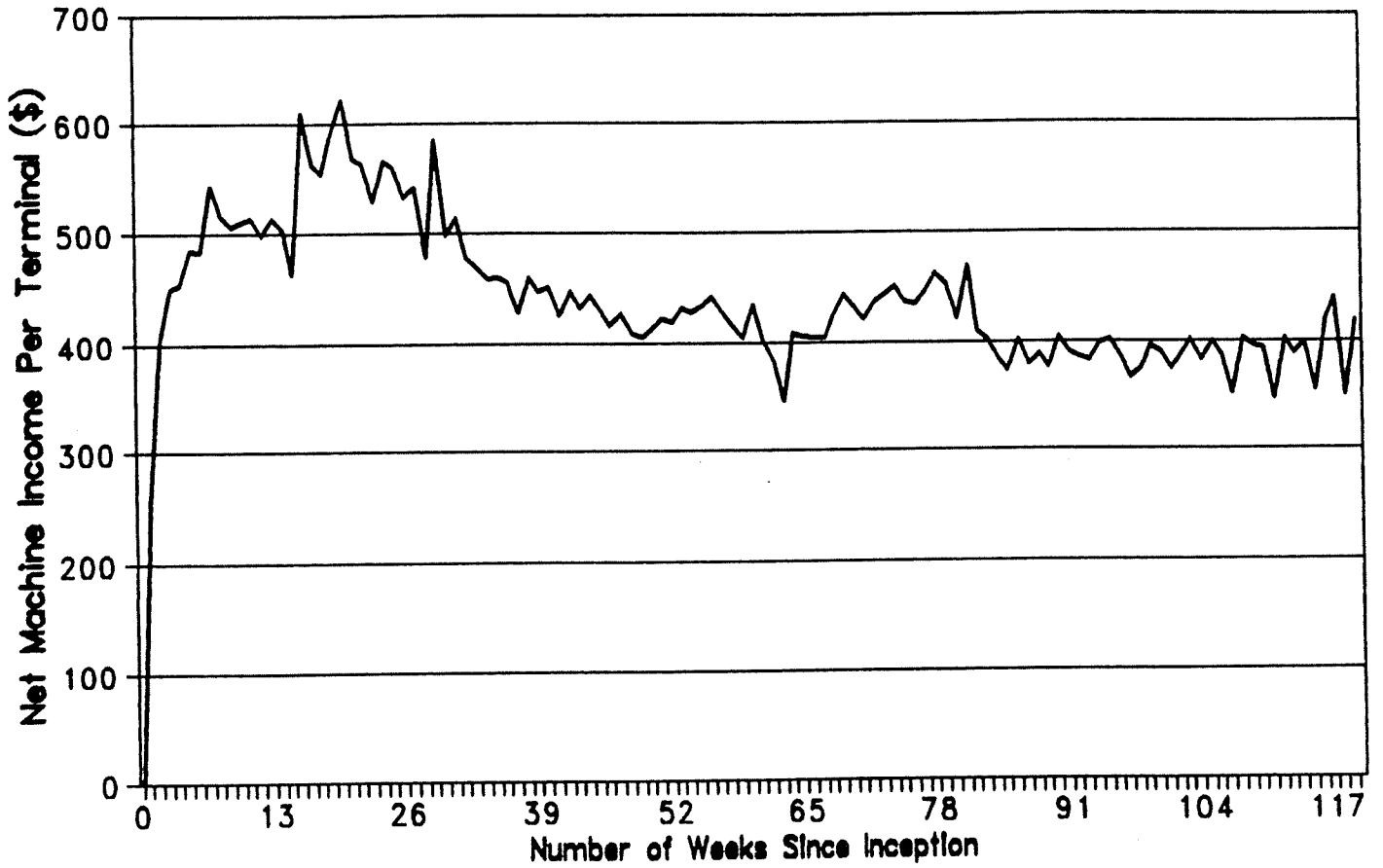
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APPENDIX FIGURE 1



APPENDIX FIGURE 2

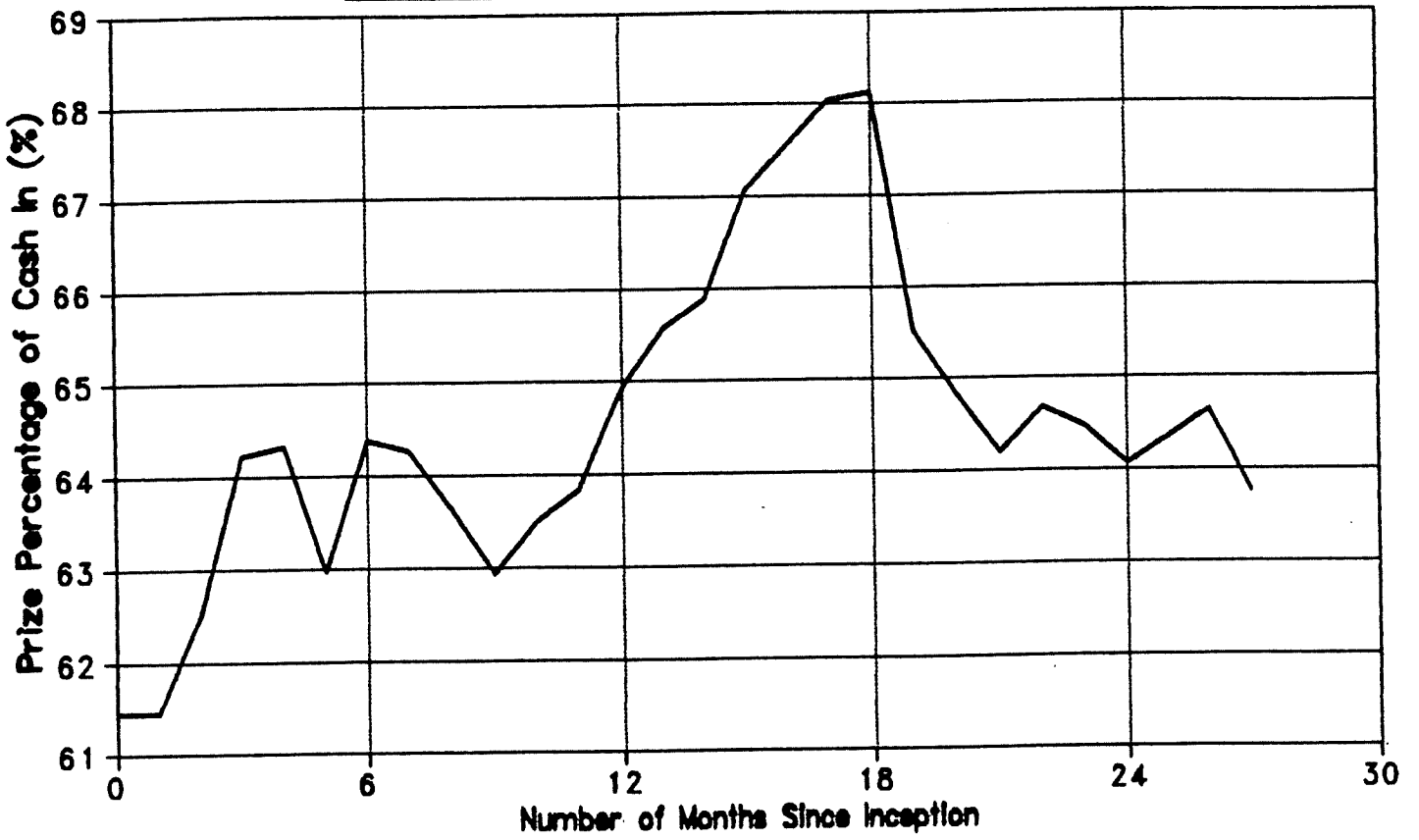
SOUTH DAKOTA: WEEKLY NET MACHINE INCOME PER TERMINAL



— Inception 10-14-89

APPENDIX FIGURE 3

SOUTH DAKOTA: PRIZES AS A PER CENT OF  
TOTAL CASH IN (HANDLE)



— Inception 10-14-89

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