

Approved March 3, 1992
Date

MINUTES OF THE SENATE COMMITTEE ON GOVERNMENTAL ORGANIZATION

The meeting was called to order by Senator Lana Oleen at
Chairperson

1:35 ~~am~~ p.m. on February 24, 1992 in room 531-N of the Capitol.

~~All~~ members ~~were~~ present ~~except~~: Senators Oleen, Doyen, Gaines, Kanan and Vidricksen.
Members absent - Excused: Senators Francisco, Moran and Strick
Members absent: Senator Bogina

Committee staff present:

Julian Efird, Kansas Legislative Research Department
Fred Carman, Revisor of Statutes Office
Mary Allen, Committee Secretary

Conferees appearing before the committee:

Ralph Decker, Kansas Lottery

The meeting of the Senate Committee on Governmental Organization was called to order at 1:35 p.m. by the Chairman, Senator Lana Oleen, who called for the report of the Subcommittee on SB 472.

Senate Bill 472 - Sunset law, Kansas lottery, executive director, commission, continuation.

Senator Vidricksen presented the report of the Subcommittee, which included himself as Chair and Senator Strick as the other member, on SB 472. He stated that the Kansas Sunset Law provides for the abolition of the Kansas Lottery, the office of the Executive Director, and the Lottery Commission on July 1, 1992, unless an act of the Legislature continues them in existence. He pointed out that if no bill passed the 1992 Legislative Session to extend the life of these entities, all would begin a statutorily mandated one-year phaseout period before abolishment on June 30, 1993. Senator Vidricksen presented information on the background of the Lottery in Kansas, the application of the Kansas Sunset Law, and the Subcommittee's review of the Kansas Lottery. He reported that the Subcommittee recommends that SB 472 be passed as introduced and that the Lottery should be continued in existence for a period of eight years, at which time it would be subject to abolition under the Kansas Sunset Law. (See Attachment I for copy of Subcommittee Report.)

Chairman Oleen opened the public hearing on SB 472. Ralph Decker, Executive Director of the Kansas Lottery, addressed the Committee on his agency and pointed out that the Lottery, which is self funded and employs 100 people, is not a typical state agency for it is a profit-type organization with the profit going to the state. He said that many questions have been asked regarding the use of those profits and he gave a detailed breakdown of allocations from the Economic Development Fund for the 1992 fiscal year. Mr. Decker discussed what some other states are doing with their lottery profits and noted that one uses its money for senior citizen programs, some use it for education, in Missouri the money goes into the General Fund and in Colorado it goes 50% to capital construction, 40% to the conservation trust fund and 10% to the states parks and recreation.

Mr. Decker presented a handout which included the state of the Lottery today, where the Lottery would like to be in the future, the number of audits, studies and reviews of the Lottery, the distribution of Lottery funds and a recap of Lottery activity through January 1, 1992. (Attachment II) He pointed out that if the Lottery is abolished there would be certain expenses which the state would incur as a result, for during the wind down period, sales would decrease dramatically. He stated that Kansas pays some of the highest prices with its vendors because of the Sunset Law for the vendors realize that they must recoup their money within the time frame of the Lottery's current sunset date.

There were no opponents appearing against the bill.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON GOVERNMENTAL ORGANIZATION

room 531-N, Statehouse, at 1:35 ~~am~~ p.m. on February 24, 1992.

In answer to a question concerning the possible effect on the Lottery if casino gambling is allowed in Kansas, Mr. Decker said that such gambling would probably not hurt the Lottery for it is anticipated that people from other states coming into Kansas to gamble would also participate in the Lottery. He answered questions concerning video lottery, the use of prizes other than money (now prohibited by Kansas law), and Lottery proposals to reduce the statutory transfer to the State Gaming Revenues Fund from 30 to 20 percent and to use the additional funds for increasing the payout of prizes from a minimum of 45 to 55 percent. The Governor's Office has those considerations under review.

Chairman Oleen requested Mr. Decker to furnish the Committee with information concerning the fiscal impact of vendors charges because of the Kansas Sunset Law and the amount anticipated in increased revenue to the Lottery if more money is given in prizes. In addition, she requested information from a profile study being made of purchasers of lottery tickets.

The meeting was adjourned by the Chairman at 2:30 p.m.

GUEST LIST

<u>NAME</u>	<u>REPRESENTING</u>
Ralph Decker	Kansas Lottery
Nick Roach	I.G.T.
Geary Winzard	Gov.
John W. Roberts	Kansas Lottery
Derieth L. Sutton	Kansas Lottery

MEMORANDUM

Kansas Legislative Research Department

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

February 21, 1992

To: Senate Committee on Governmental Organization

From: Subcommittee on Kansas Lottery -- Senator Ben Vidricksen, Chairperson;
Senator John Strick

Re: Sunset Review of the Kansas Lottery

The Kansas Sunset Law provides for the abolition of the Kansas Lottery, the Office of Executive Director, and the Lottery Commission on July 1, 1992, unless continued in existence by an act of the Legislature. If no bill passes the 1992 Session to continue these entities in existence, then all three would enter a statutorily mandated one-year phaseout period before ceasing to exist on June 30, 1993.

Lottery Background

The 1986 Legislature adopted S.C.R. 1609 which placed on the November, 1986 general election ballot a proposition to amend Article 15 of the *State Constitution* by adding a new section authorizing the Legislature to provide for a state-owned and operated lottery. The proposition was approved at the November 4, 1986, general election.

The 1987 Legislature approved 1987 H.B. 2043 which established a state lottery. No sunset provision was included in the original enabling statutes.

However, included in the 1986 constitutional amendment approved by the electors was language which provided that the state-owned lottery shall not be operated after June 30, 1990, unless authorized by a concurrent resolution approved by a majority of both houses during the 1990 Session. This constitutional provision has been referred to as a "sunset" clause, but the Kansas Sunset Law did not reflect any provisions placing the Kansas Lottery on the sunset list.

The 1990 Legislature passed 1990 S.C.R. 1646 which authorized continued operation of a state-owned lottery after June 30, 1990, as required by the constitutional provision. The 1990 Legislature also approved House Substitute for 1990 S.B. 762 which added the Kansas Lottery, its Executive Director, and the Lottery Commission to provisions of the Kansas Sunset Law, with an abolition date of July 1, 1992.

Senate Committee on Governmental Organization
2-24-92

Attachment I

Application of the Kansas Sunset Law

The Kansas Sunset Law provides a framework for periodic legislative reviews of preselected state agencies (and the programs which the agencies are responsible for implementing). Also included on the termination list are key state officials (specifically, their statutory offices) which also are subject to sunset as well as the agencies which they head.

When an agency and its chief officer are scheduled for abolition (*e.g.*, on July 1, 1992), the Kansas Sunset Law provides that both would continue in existence for one year after the date cited in statute for abolition, in order to conclude their business.

No agencies or officers which are subject to the Kansas Sunset Law may be continued or reestablished for more than eight years.

Any performance audits of state agencies and offices are subject to the approval of the Legislative Post Audit Committee and are not mandated for each state agency and office scheduled for abolition. The scope of performance audits may be determined by the Post Audit Committee. There were no performance audits for the Kansas Lottery since 1989. Several financial audits have been completed since 1990, including fiscal year 1990 and 1991 Financial and Compliance Audit Reports from the Legislative Division of Post Audit.

Prior to the abolition date, committees of reference in each house of the Legislature must hold public hearings on the agencies and offices scheduled for abolition. As a prelude to public hearings by the full Committee, the Subcommittee was directed by the Chairman to begin studying the Kansas Lottery and to report back to the full Committee.

Subcommittee Review and Recommendation

The Subcommittee met with Lottery officials on February 10, 1992, to review the operations of the Kansas Lottery. The Kansas Lottery's Executive Director, Ralph Decker, presented an overview of the agency and its operation.

The Subcommittee was guided by the following questions in forming its conclusions and recommendation about the Kansas Lottery.

1. Why should the state agency be reestablished or continued in existence? (a) What would be the consequences if the agency and its programs were not renewed? (b) Should the state agency be subject to the sunset in the future? For how long should the continuation be set (up to a maximum of eight years) before the next legislative review preceding sunset?

Conclusion 1

The people approved a state-owned lottery as an amendment to the *State Constitution*, and the Legislature implemented the wishes of the people by

statutorily establishing the Kansas Lottery, with an Executive Director and Lottery Commission to help manage its operation. The state would lose over \$20 million in revenue for various programs if the Lottery were discontinued. The Lottery should be extended for eight years, subject to abolition under the Kansas Sunset Law.

2. Can the functions of the state agency and any of its programs be performed in a more efficient, effective or economical manner? (a) What changes would need to be made in statutes to accomplish these suggestions? (b) What changes would need to be adopted by the agency (rather than made in statutory authority) to accomplish these suggestions?

Conclusion 2

The Executive Director presented several suggestions, including proposals to reduce the statutory transfer to the State Gaming Revenues Fund from 30 to 20 percent and to use the additional funds for increasing the payout of prizes from a minimum of 45 to 55 percent, and to authorize the Lottery to award non-monetary prizes, such as automobiles. Those proposals would require statutory changes and are being reviewed by the Governor's Office, Mr. Decker reported.

3. Does the agency's organization and staff have a basis in law? What are the legal requirements found in statutes? (a) Does the agency head have statutory authority to reorganize the agency and its programs? What limitations are in effect? (b) Are any statutory changes needed to make the organization structure and its established positions consistent with law?

Conclusion 3

The Subcommittee received a brief report from the Executive Director on several personnel matters. Mr. Decker reported that an individual discussed as serving in the capacity of Communications Coordinator would be placed as the Director of Marketing (a statutory position) and that the Deputy Director position (also a statutory position) would be filled next year.

Subcommittee Recommendation

The Subcommittee recommends that S.B. 472 be passed as introduced, to continue the Lottery in existence for a period of eight years, at which time it would be subject to abolition under the Kansas Sunset Law.

STATE OF THE LOTTERY

BEGAN IN NOV., 1987

EXPANDED COMPUTER CAPABILITIES TO
ALLOW 10 GAMES INSTEAD OF 3

CLOSED K C OFFICE, ECONOMY MOVE

REALIGNED OFFICE STAFFING -
COMMUNICATIONS

FY 1991 _ EXCEED SALES PROJECTIONS
FOR THE FIRST TIME

NEW THEME:

"SOMEBODY'S ALWAYS WINNING"

CASH LOTTO ON TV LIVE

CONTACTED OVER 1M PEOPLE IN ALL
SPECIAL EVENTS IN FY91

REDUCED STAFF WHERE APPROPRIATE.

Senate Committee on Governmental Organization

2-24-92

Attachment II

TRANSFERRED 90.7 M TO STATE SINCE
INCEPTION TO 1/31/92

TOTAL \$ IN WINNINGS: \$240.7 M,
\$179,096/DAY - 30,342 WINNERS/DAY

1950 RETAILERS, 987 ON-LINE,
305 PULL-TABS

NET SALES \$313 M

RETAIL COMMISSIONS 16.6 M

LOTTERY IS SELF FUNDED --
NO CHANGE FROM THE PAST

ADVERTISING IS CURRENTLY 2.8% OF
SALES. INDUSTRY RANGES FROM 4-6%
(2.1 M - 75 M sales)

ADMINISTRATIVE COSTS FY91 WERE
11.4% OF SALES

THE LOTTERY IS NOT A TYPICAL STATE
AGENCY. PROFIT-TYPE ORGANIZATION
WITH THE PROFIT GOING TO THE STATE.

AUDITS - 14 + 2 REQUESTED BY THE
LOTTERY (SECURITY) FOR A TOTAL OF
16 IN OUR FOUR YEARS OF EXISTENCE.
LAST ONE SHOWED ZERO DEFECTS (PART
OF THE REGULAR STATE AUDIT).

STARTED PICK 3 -

THE FUTURE OF THE LOTTERY

ONE BUDGET - ABILITY TO SHIFT
MONEYS AS NECESSARY, WHERE NEEDED.

REVAMP COMPUTER SYSTEM -
LOTTERY COMES OF AGE.

ON-LINE VALIDATION -
CROSS-REDEMPTION

BONUS PROGRAM FOR SALES FORCE

CHECKS PRINTED AT LOTTERY

LOTTERY BECOMES A RETAILER

ALLOW NON-MONETARY PRIZES



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

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

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