

Approved March 4, 1992

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Senator August "Gus" Bogina, Chairperson, at 11:08 a.m. on February 25, 1992 in Room 123-S of the Capitol.

All members were present except:

No one was absent

Conferees appearing before the committee:

None

SB 525 - Appropriations for FY93, state board of tax appeals, department of revenue, Kansas lottery, Kansas racing commission, department of commerce, Kansas, Inc. and Kansas technology enterprise corporations.

STATE BOARD OF TAX APPEALS

Senator Doyen reviewed the FY93 subcommittee report (Attachment 1). Senator Doyen moved, Senator Parrish seconded, that FY93 subcommittee report as amended by previous action to delete the salary increases be adopted. The motion carried.

DEPARTMENT OF REVENUE

The FY92 subcommittee report (Attachment 2) was reviewed by Senator Harder. It was moved by Senator Harder and seconded by Senator Rock that the FY92 subcommittee report be adopted. The motion carried.

Senator Harder reviewed the FY93 subcommittee report, Attachment 3. Senator Rock commended the agency for its efficiency in reducing positions and restructuring management over the last three years. In discussing data processing costs (item 3), it was stated that the current appropriation is based upon the night rate which is 14% less than day rates. Senator Rock reiterated the directive for the House to study this issue.

Senator Harder moved, Senator Doyen seconded that the subcommittee report be amended to include a directive that the House review SB 551. The motion carried.

Senator Kerr asked what kind of policy change initiated the request for additional PVD positions (item 2 of Attachment 3-2). Senator Rock explained that field personnel conduct compliance audits and all they're doing now is going into counties that report significant problems with reappraisal. He stated that the subcommittee has real concerns with reappraisal if the Legislature passes a statewide uniform mill levy. In answer to a question, Susan Duffy, Department of Revenue, noted that there are currently approximately 15 staff persons in the field. Senator Kerr expressed his belief that reappraisal is a problem that needs to be addressed. Senator Harder reminded the Committee that the agency had requested 90 additional FTEs.

Senator Hayden expressed his concern that counties which paid a large amount of money for reappraisal were not receiving any state consideration now.

The Chairman inquired whether there would be any savings realized through the optical imaging system (item 1, Attachment 3-2). Senator Harder stated that the system would provide more efficiencies and should, by the reduction of personnel in the future, provide savings.

The Chairman asked why an additional \$426,000 in FY92 is added by the Governor for equipping county treasurer's offices to issue driver licenses instead of using the current stock of equipment from offices that would be closed. Mark Beshears, Secretary, Department of Revenue, stated that the 42 temporary stations were not fully equipped and would have required \$500,000 to equip them for the on-line issuance of driver licenses. He added that the \$426,000 is a one time expenditure and will provide for the elimination of travel expenses.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

It was moved by Senator Harder and seconded by Senator Rock that the FY93 subcommittee report as amended be adopted. (The report is further amended by previous action to delete the salary increases.) The motion carried.

KANSAS LOTTERY

The FY92 subcommittee report (Attachment 4) was reviewed by Senator Winter. Senator Winter moved, Senator Doyen seconded, the adoption of the FY92 subcommittee report. The motion carried.

Senator Winter reviewed the FY93 subcommittee report, Attachment 5. Senator Winter moved to amend item 1 of the subcommittee report by requesting that the House Committee on Computers, Communications and Technology review the computer acquisition options: 1) the financial management capability of ACCLAIMS and cost estimates for modification of the software, 2) the purchase of two AS/400 computers and the estimated costs for hardware, software and modification of the software, and 3) any alternative solutions (See Attachment 12). Senator Gaines seconded the motion which carried on a voice vote. There was lengthy discussion about performance based contracts and vendor and agency accountability for data processing acquisitions.

The Chairman inquired whether there were any unclassified personnel in the Lottery in light of the staff note in the Governor's Budget Amendment. It was moved by Senator Winter and seconded by Senator Gaines that the House Governmental Organization Committee review the current law in conjunction with unclassified positions which may be appointed at the Kansas Lottery since K.S.A. 74-8704(b) directs that all Lottery employees be in the classified service unless specifically excluded by statute. The motion carried.

Senator Winter moved, Senator Gaines seconded, that the FY93 subcommittee report as amended be adopted. (The report is further amended by previous action to delete the salary increases.) The motion carried on a voice vote.

KANSAS RACING COMMISSION

Senator Doyen reviewed the FY92 subcommittee report, Attachment 6. It was moved by Senator Doyen and seconded by Senator Feleciano that the subcommittee report be adopted. The motion carried.

The FY93 subcommittee report, Attachment 7, was reviewed by Senator Doyen. It was moved by Senator Doyen and seconded by Senator Parrish that the FY93 subcommittee report as amended by the deletion of salary increases be adopted. The motion carried.

DEPARTMENT OF COMMERCE

Senator Feleciano reviewed the FY92 subcommittee report (Attachment 8). There being no questions, Senator Feleciano moved and Senator Gaines seconded that the FY92 subcommittee report be adopted. The motion carried.

The FY93 subcommittee report, Attachment 9, was reviewed by Senator Feleciano. Senator Brady requested a breakdown of cost estimates involved with the promotion of Kansas products at Harrods Department Store (item 13). Mr. Jim Beckley, Division of Trade Development, stated that for every dollar spent on the promotion, with the exception of travel and tourism money, the department store guarantees an equal amount in purchases of Kansas products.

Senator Rock moved, Senator Feleciano seconded, that the subcommittee report be amended by including \$30,000 for the Cherokee Strip Centennial Promotion. The motion carried.

In answer to Senator Moran's question, it was stated that the \$50,000 for trade representation contracts (item 12) is primarily to cover increased expenses of persons representing Kansas in eastern countries.

In explaining the subcommittee's recommendation regarding special project positions, Chairman Bogina stated that there were 12 special project positions throughout the department, and that the subcommittee recommended eliminating 6 of those and making the other 6 fulltime positions.

In answer to Senator Brady's question, it was noted that the recommendation to place incumbents into the classified service (item 11) was made in order

to avoid the "bumping" system. If the incumbents do not qualify under civil service, the department would be required to terminate those employees.

Senator Feleciano moved, Senator Doyen seconded that the FY93 subcommittee report as amended be adopted. (The report is further amended by deletion of salary increases.) The motion carried.

KANSAS, INC.

Senator Salisbury reviewed the FY92 and FY93 subcommittee reports, Attachment 10. It was moved by Senator Salisbury and seconded by Senator Parrish that the FY92 subcommittee report and the FY93 subcommittee report as amended by deletion of salary increases be adopted. The motion carried.

KANSAS TECHNOLOGY ENTERPRISE CORPORATION

Senator Salisbury reviewed the FY92 and FY93 subcommittee reports (Attachment 11). There was discussion regarding the subcommittee recommendations for the Center of Excellence, item 2 of Attachment 11-5. Senator Winter moved, Senator Salisbury seconded, to amend the FY93 subcommittee report by recommending \$500,000 from the EDIF for the Centers of Excellence. Concern was expressed that the whole range of possibilities ought to be considered if additional revenue becomes available. The motion failed.

Senator Kerr expressed his belief that the EPSCOR program is an evaluative entity, and, as such, should not be funded in KANSAS, Inc.

Senator Salisbury moved, Senator Parrish seconded, that the FY92 subcommittee report and the FY93 subcommittee report as amended by deletion of salary increases be adopted. The motion carried.

It was moved by Senator Doyen and seconded by Senator Gaines that SB 525 as amended be recommended favorable for passage. The motion carried on a roll call vote.

The Chairman adjourned the meeting at 12:43 p.m.

GUEST LIST

COMMITTEE: SENATE WAYS AND MEANS

DATE: Feb 25, 1992

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
FRANK CALVILLO		KANSAS LOTTERY
GARY SAVILLE	TOPEKA	KANSAS LOTTERY
John N. Roberts	topeka	Kansas Lottery
CHARA MOHAN	TOPEKA	Ks. Lottery
JERRY ELVER	TOPEKA	Ks LOTTERY
WALT DARLING	TOPEKA	Ks DIVISION OF BUDGET
MILVE WOJCIUK	TOPEKA	BUDGET
Ken HARJO	TOPEKA	RACING COMMISSION
DANA NELSON	TOPEKA	KRC
MARK BESHARS	TOPEKA	KDOR
<i>Summ Kelly</i>	<i>TOPEKA</i>	<i>KDOR</i>
<i>Anna Michael</i>	<i>TOPEKA</i>	<i>KDOC</i>
Bill Thompson	TOPEKA	KDOC
JAMES BECKLEY	TOPEKA	KDOC
<i>Charles Wana</i>	<i>TOPEKA</i>	<i>Kansas Inc.</i>
George Wingerd		Gov.
Cal Lantz	TOPEKA	KDOC
JERRY LOVERGAN	"	"
Craig Peavler	"	Ks. Dept of Quins
TED KUWANA	LAWRENCE	KU
Chris Cooper	TOPEKA	KTEC
Cindy Diehl	"	"
Kevin Carr	"	"
ERIC Sexton	Wichita	WSCU
<i>Marty Vaner</i>	<i>Manhattan</i>	<i>KSLC</i>
Kim Vickers	TOPEKA	Intern (Karr)
William Under	"	" Kerr
<i>Dick Hahn</i>	<i>Manhattan</i>	<i>KUAC</i>
<i>Julie Heid</i>	<i>Top</i>	<i>Horn + Ebert</i>
Bill Bourdage	topeka	KTEC
STELBY SMITH	Wichita	KASEA

SUBCOMMITTEE REPORT

Agency: State Board of Tax Appeals **Bill No.** 525 **Bill Sec.** 2
Analyst: Efird **Analysis Pg. No.** 302 **Budget Page No.** 554

<u>Expenditure Summary</u>	<u>Agency Req. FY 93</u>	<u>Gov. Rec. FY 93</u>	<u>Subcommittee Adjustments</u>
State Operations:			
All Funds	\$ 1,794,512	\$ 1,645,017	\$ --
State General Fund	1,786,512	1,637,017	--
 FTE Positions	 36.0	 36.0	 --

Agency Request/Governor's Recommendation

FY 1992. The Board estimates a decrease of \$21,203 in its approved expenditures, including a reduction of \$23,203 from the State General Fund. One of the Board's authorized FTE positions, an Office Assistant II, is being kept vacant this fiscal year as part of the 1 percent reduction. The Governor concurs with most of the Board's revised FY 1992 budget and further reduces \$5,759 for salaries and benefits. Recommended expenditures total \$1,598,364 from all funds and \$1,591,364 from the State General Fund.

FY 1993. The Board's request includes a net increase in expenditures of \$190,389 more than its revised FY 1992 estimate. Financing from the State General Fund would increase \$189,389 to finance these higher expenditures. No change in the FTE level of staffing is proposed by the Board. Financing of \$14,472 (salary only) for the Office Assistant II position is added and \$62,691 for 14 temporary positions also is added above the FY 1992 levels. The Governor recommends an increase of \$46,653 above FY 1992 expenditures. Included in the Governor's recommended funding is \$14,472 for the vacant position. No increase is recommended in FY 1993 for temporary positions.

Senate Subcommittee Recommendation

The Subcommittee concurs with the Governor's recommendations for FY 1992 and FY 1993, with the following exceptions:

1. Increase FY 1992 expenditures by \$3,900 SGF to allow replacement of 450 rolls of microfilm dating from 1956 to 1979. The Subcommittee has learned that, in the process of making copies of documents from that original microfilm, some spotting of the microfilm occurs during the process. The Subcommittee recommendation would allow the new 450 rolls to be achieved, thus replacing the existing 450 rolls, which then may be used for making future copies. The Governor's recommended budget includes \$5,000 in FY 1992 and \$5,000 in FY 1993 for annual microfilming of the Board's records and the Subcommittee views this one-time expense as not foreseen when the agency's budget was prepared.

SWAM
February 25, 1992
Attachment 1

2. Reduce the reappropriated balance in S.B. 525 by \$3,900 to reflect the additional expenditures in FY 1992 and increase the State General Fund appropriation by \$3,900 in FY 1993 to provide adequate financing in S.B. 525.



Senator Ross Doyen
Subcommittee Chairperson



Senator Nancy Parrish

SUBCOMMITTEE REPORT

Agency: Department of Revenue

Bill No. 547

Bill Sec. --

Analyst: Efird

Analysis Pg. No. 285

Budget Page No. 484

<u>Expenditure Summary</u>	<u>Agency Est. FY 92</u>	<u>Gov. Rec. FY 92</u>	<u>Subcommittee Adjustments</u>
All Funds:			
State Operations	\$ 51,973,985	\$ 52,326,249	\$ 318,077
State Aid	10,177,500	10,177,500	--
Other Assistance	2,500,000	2,500,000	--
Total - Operating	<u>\$ 64,651,485</u>	<u>\$ 65,003,749</u>	<u>\$ 318,077</u>
State Operations:			
State General Fund	\$ 26,660,967	\$ 26,553,047	\$ --
DOV Operating Fund	24,313,306	24,773,490	--
FTE Positions	1,232.5	1,238.5	--

Agency Estimate/Governor's Recommendation

The agency's revised FY 1992 expenditures reflect an increase of \$1,165,398 above actual FY 1991, including an increase of \$1,005,079 for state operations, \$148,445 for state aid, and \$11,874 for other assistance. That increase in state operations is financed from the DOV Operating Fund which is budgeted \$1,019,043 of additional expenditures above FY 1991. The State General Fund is reduced by \$14,996 from actual FY 1991 expenditures for state operations. A total of 19.5 FTE positions have been reduced from the FY 1991 level.

The Governor's recommended FY 1992 expenditures reflect an increase of \$1,517,662 above actual FY 1991, including an increase of \$1,357,343 for state operations, \$148,445 for state aid, and \$11,874 for other assistance. That increase in state operations is financed from the DOV Operating Fund which is budgeted \$1,478,722 of additional expenditures above FY 1991. The State General Fund is reduced by \$122,916 from actual FY 1991 expenditures for state operations. The Governor's recommendations add 6.0 FTE positions in the driver licensing area which were not included in the agency's original budget. GBA #1 includes a technical adjustment to be added in S.B. 547, the Local Report Fee Fund, \$1,181.

Senate Subcommittee Recommendation

The Subcommittee concurs with the Governor's recommended expenditures, with the following adjustments in FY 1992:

SWAM
February 25, 1992
Attachment 2

1. Increase the FY 1992 expenditure limitation from \$3.0 to \$3.3 million for the cost of reappraisal maintenance, and authorize by proviso the use of the additional \$318,077 to provide class and training for county employees in the use of appraisal methods and techniques. The funding was encumbered in FY 1991 for hardware and software enhancements which were not purchased, so no new financing will be required if the FY 1991 encumbrances are canceled without expenditure of the funds.
2. Note that the agency's salary turnover savings are estimated at 2.0 percent by the Secretary and that the Governor's budgeted savings are 3.5 percent in FY 1992. The Subcommittee would like to review this situation during Omnibus, especially if a greater number of retirements are announced, to see if additional financing from either the State General Fund or the DOV Operating Fund would be required this fiscal year.

Joseph C. Haeder
Charles B. ...

SUBCOMMITTEE REPORT

Agency: Department of Revenue

Bill No. 525

Bill Sec. 2

Analyst: Efirid

Analysis Pg. No. 285

Budget Page No. 484

<u>Expenditure Summary</u>	<u>Agency Req. FY 93</u>	<u>Gov. Rec. FY 93</u>	<u>Subcommittee Adjustments</u>
All Funds:			
State Operations	\$ 60,183,334	\$ 58,893,115	\$ (4,030,585)
State Aid	9,694,000	9,694,000	--
Other Assistance	2,538,258	2,538,258	--
Total - Operating	<u>\$ 72,415,592</u>	<u>\$ 71,125,373</u>	<u>\$ (4,030,585)</u>
State Operations:			
State General Fund	\$ 28,538,253	\$ 27,654,352	\$ (225,828)
DOV Operating Fund	31,040,916	30,628,806	(3,804,757)
FTE Positions	1,274.5	1,269.5	(13.0)

Agency Request/Governor's Recommendation

The agency's FY 1993 budget request reflects an increase of \$7,764,286 above the revised current year plan. State operations would be increased \$8.2 million. State aid would be reduced \$483,500 from the revised FY 1992 amounts and other assistance would be increased \$38,258. FY 1993 financing from the State General Fund would increase \$1,877,286 for state operations, with an increase of \$6,727,610 requested from the DOV Operation Fund for state operations. For FY 1993, the agency requests a net total of 42.0 additional FTE positions above its revised FY 1992 level. All positions are to be financed from the State General Fund. The change in number of staff requested by different units includes increases of 19.0 FTE positions for property valuation, 22.0 FTE positions for tax collections and 2.0 FTE positions for taxpayer assistance, and a reduction of 1.0 FTE position for alcoholic beverage control.

The Governor's recommended FY 1993 budget reflects an increase of \$6,121,624 above the revised FY 1993 recommendations. State operations would be increased \$6.567 million. State aid would be reduced \$483,500 from the revised FY 1992 amounts and other assistance would be increased \$38,258. FY 1993 financing from the State General Fund would increase \$1,101,305 for state operations, with an increase of \$5,855,316 recommended from the DOV Operation Fund for state operations. For FY 1993, the Governor recommends a net total of 30.5 FTE positions above the revised FY 1992 level. All positions are to be financed from the State General Fund. The change in number of staff recommended by the Governor include increases of \$655,452 to finance 25.0 FTE positions for property valuation and \$265,092 to finance 12.0 FTE positions for tax collections. The Governor also recommends a reduction of 5.5 FTE positions for administrative services and of 1.0 FTE position for alcoholic beverage control. Funding from the DOV Operating Fund is recommended for reissuing newly designed license plates in CY 1994 at a one-time cost of \$3.8 million and for purchasing an optical imaging system at \$1.4 million to maintain driver control and accident files.

*SWAM
February 25, 1992
Attachment 3*

GBA #1 includes several technical amendments to S.B. 525, specifically adding two line items to the appropriations bill, the Local Report Fee Fund and the Forfeited Property Fee Fund which were included in the Governor's plan for financing the agency's expenditures.

Senate Subcommittee Recommendation

The Subcommittee concurs with the Governor's recommended expenditures, with the following adjustments in FY 1993:

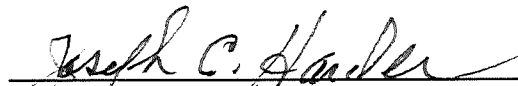
1. Reduce financing for manufacture of new license tags (to replace all current plates with a new design tag) by \$3.8 million in FY 1993 and by order of the Director of Vehicles, postpone the reissuance of all plates for at least another year. The Subcommittee believes that the \$1.4 million recommended expenditure for an optical imaging system is a greater priority to serve the needs of taxpayers seeking assistance from state government. After implementation, the automated file retrieval system will allow some staff to either be reassigned or eliminated, thus increasing efficiency of operations in this area. The Subcommittee recommendation leaves in the budget over \$1.0 million for the manufacture of the current designed license tags and decals in FY 1993.
2. Reduce the recommended number of new PVD positions from 25.0 to 15.0 FTE, with financing of \$225,828 from the State General Fund reduced to reflect leaving primarily field appraiser positions in the budget. The Subcommittee further recommends reconsideration during Omnibus of the other 10.0 FTE positions and financing if a statewide school finance mill levy passes this Session.
3. Shift \$60,000 in salaries and wages financing to other operating expenditures and delete 3.0 (undesignated) FTE positions recommended for new staff in tax collections in order to provide adequate funding for travel by new field auditors. The Governor's recommendation for \$21,929 of additional travel money was deemed inadequate, and the \$60,000 should be used to augment travel expenses for new auditors. The Subcommittee learned that at least three portable computers were transferred from PVD to Field Audit Services when PVD received new Apple Macintosh computers. The issue of no equipment funding provided by the Governor can be re-reviewed by the House Subcommittee if necessary.
4. Note that questions and concerns about the data processing costs and the apportionment of financing between the State General Fund and DOV Operating Fund remain unanswered, and should be addressed by the House Subcommittee.
5. Appropriate the State General Fund financing by salaries and wages, and other operating expenditures rather than as a single line item recommended by the Governor. The Subcommittee strongly believes that this method is preferred in view of the Governor's recommended salary turnover savings rate of 3.5 percent which forces the agency to hold a large number of positions vacant for extended periods of time. If sufficient salary financing is not recommended by the Governor to reduce turnover savings to the agency's average of 2.0 percent, then

the ability to make up any shortfall by shifting from OOE should either require approval by the Legislature (if in session) or by the Governor. The Subcommittee notes that an expenditure limitation specifically for salaries and wages is included in S.B. 525 for the Division of Vehicles Operating Fund. The net State General Fund adjustment to salaries and wages in FY 1993 is a reduction of \$285,828 to provide for expenditures of \$21,976,603 and an increase of \$60,000 to other operating expenditures to provide for expenditures of \$5,451,921.

6. Commend the agency's management team for its efforts over the past three years by reallocating existing resources internally and express concern that the state financial resources will not allow the Subcommittee to add financing to reduce the budgeted salary turnover rate from 3.5 to 2.0 percent.


DOV Operating Fund Analysis. In order to finance activities related to motor vehicles, most financing for the DOV Operating Fund is provided by quarterly transfers from the State Highway Fund. The following table summarizes the status of the DOV Operating Fund as recommended by the Governor and adjusted by Subcommittee action. The reduction of \$3.8 million is reflected in both a decrease in that amount to be transferred from the State Highway Fund and to be expended in FY 1993:

Resource Estimate	Actual FY 1991	Estimated FY 1992	Estimated FY 1993
Beginning Balance	\$ 1,479,017	\$ 615,509	\$ 74,275
Net Receipts	1,659,088	1,740,360	1,740,360
Transfers	20,772,672	22,491,896	25,085,243
Total Funds Available	<u>\$ 23,910,777</u>	<u>\$ 24,847,765</u>	<u>\$ 26,899,878</u>
Less: Expenditures	23,294,768	24,773,490	26,824,049
Ending Balance	<u><u>\$ 616,009</u></u>	<u><u>\$ 74,275</u></u>	<u><u>\$ 75,829</u></u>



 Senator Joseph Harder
 Subcommittee Chairperson

 Senator Jerry Moran



 Senator Richard Rock

SUBCOMMITTEE REPORT

Agency: Kansas Lottery

Bill No. 547

Bill Sec. --

Analyst: Efird

Analysis Pg. No. 293

Budget Page No. 438

<u>Expenditure Summary</u>	<u>Agency Est. FY 92</u>	<u>Gov. Rec. FY 92</u>	<u>Subcommittee Adjustments</u>
State Operations	\$ 13,241,181	\$ 12,979,878	\$ --
Other Assistance*	36,740,000	36,228,000	1,000,000
Total	\$ 49,981,181	\$ 49,207,878	\$ 1,000,000
 FTE Positions	 108.0	 108.0	 --

* Other Assistance includes prizes and retailer commissions, some of which are never recorded in the State Treasury as either receipts or expenditures.

Agency Estimate/Governor's Recommendation

The agency's revised estimate for the current fiscal year includes an increase in projected sales, with a new estimate of \$72.0 million. The agency's revised budget would increase state operations expenditures almost \$1.2 million over actual FY 1991 expenses. No adjustments are requested in the Lottery's approved expenditure limitations. Transfers of \$21.6 million to the State Gaming Revenues Fund (SGRF) are based on 30 percent of gross sales as provided by statute.

The Governor's recommendations for FY 1992 assume \$71.0 million in lottery sales. A reduction of \$261,303 in approved expenditures is recommended by the Governor. Transfers of \$23.3 million to the SGRF are recommended in FY 1992, including \$21.3 million of regular transfers and a special \$2.0 million one-time SGRF transfer to reduce the Lottery Operating Fund (LOF) balances. The 1991 Legislature authorized another special FY 1992 transfer, this one to the State General Fund, of \$1.5 million to reduce LOF balances. The Governor's additional recommendation brings the total special transfers to \$3.5 million in FY 1992. The Governor's recommended financing would require the following adjustments in two FY 1992 appropriation line items: salaries and wages reduced by \$179,633 and all other operating costs reduced by \$94,670.

Senate Subcommittee Recommendation

The Subcommittee concurs with the Governor's recommended expenditures, based on financing and projected lottery sales for FY 1992, with the following adjustments:

1. Increase the sales estimate by \$2.0 million in FY 1992, from \$71.0 million assumed by the Governor to \$73.0 million based on trends to date, with the increase attributed to instant scratch games.

*SWAM
February 25, 1992
Attachment 4*

2. Increase by \$600,000 (30 percent of \$2.0 million) the estimated transfer to State Gaming Revenues Fund due to higher estimated sales in FY 1992.
3. Amend S.B. 547 to reflect the Governor's recommended adjustments to the FY 1992 limitation on expenditures for salaries and wages, and for other operating expenditures.
4. Amend S.B. 547 to effect in the Session Laws the Governor's recommended special transfer to the State Gaming Revenues Fund, to be made on or before June 30, 1992; also increase this special transfer to the State Gaming Revenues Fund from \$2.0 million estimated by the Governor to \$2.4 million in order to maintain the Governor's recommended FY 1992 ending balance of \$2.1 million in the Lottery Operating Fund.
5. Revise estimated state paid prizes (which also includes amounts collected for both federal and state taxes) to \$16.2 million in FY 1992, based on doubling the \$8.1 million transferred into the Prize Fund during the first six months to December 28, 1991.

Lottery Operating Fund Analysis. The revised FY 1992 ending balance estimated by the agency is reduced by the Governor's recommendation to transfer an additional \$2.0 million from the Lottery Operating Fund to the State Gaming Revenues Fund. The following table summarizes the status of the Lottery Operating Fund as adjusted by the Subcommittee's recommendations. The increase in net receipts to the State Treasury reflects the additional funds anticipated for paying both prizes and taxes, and for the projected increase in total lottery sales.

Resource Estimate	Agency Req. FY 1992	Gov. Rec. FY 1992	Subcommittee Adjustment
Beginning Balance	\$ 4,632,306	\$ 4,632,306	\$ --
Net Receipts	46,865,000	46,391,000	6,066,000
Total Available	<u>\$ 51,497,306</u>	<u>\$ 51,023,306</u>	<u>\$ 6,066,000</u>
Less State Operations	13,241,181	12,979,878	--
Less State Paid Prizes*	11,120,000	11,134,000	5,066,000
Less Transfer to SGRF	21,600,000	21,300,000	600,000
Less Specl. Transfer to SGRF	--	2,000,000	400,000
Less Transfer to SGF	1,500,000	1,500,000	--
Ending Balance	<u><u>\$ 4,036,125</u></u>	<u><u>\$ 2,109,428</u></u>	<u><u>\$ 0</u></u>

* Includes funds remitted as state and federal taxes and withheld from prize payments.

Lottery Operating Fund Expenditure Summary	Approved FY 1992	Gov. Rec. FY 1992	Difference FY 1992
Salaries and Wages	\$ 3,285,624	\$ 3,105,991	\$ (179,633)
On-line Telecommunications	1,485,000	1,455,000	(30,000)
On-Line Vendor Commission	2,546,000	2,760,000	214,000
All Other State Operations	5,753,557	5,658,887	(94,670)
Total -- State Operations	<u>\$ 13,070,181</u>	<u>\$ 12,979,878</u>	<u>\$ (90,303)</u>

Summary. The Subcommittee recommendations would allow the Lottery to spend 17.8 percent of estimated net sales for state operations, compared with 18.3 percent recommended by the Governor. By statute, at least 45 percent must be paid in prizes and 30 percent must be transferred to the State Gaming Revenues Fund. The Lottery pays most of its retailers a commission of 5 percent to sell lottery tickets and shares.

Frank D. Lane

Wint Allen

SUBCOMMITTEE REPORT

Agency: Kansas Lottery

Bill No. 525

Bill Sec. 4

Analyst: Efirid

Analysis Pg. No. 293

Budget Page No. 438

<u>Expenditure Summary</u>	<u>Agency Req. FY 93</u>	<u>Gov. Rec. FY 93</u>	<u>Subcommittee Adjustments</u>
State Operations	\$ 15,152,300	\$ 14,545,718	\$ (1,073,476)
Other Assistance*	38,278,000	36,728,000	--
Total	\$ 53,430,300	\$ 51,273,718	\$ (1,073,476)
 FTE Positions	 106.0	 101.5	 (3.0)

* Other Assistance includes prizes and retailer commissions, of which some transactions are never recorded in the State Treasury as either receipts or expenditures.

Agency Request/Governor's Recommendation

The agency estimates lottery sales of \$75.0 million next fiscal year. Expenditures for state operations would increase \$1.9 million over the revised FY 1992 estimate. Most of the increase is attributed to additional expenditures for advertising and promoting the Lottery, for printing instant tickets, for acquiring new computer equipment, and for increasing lotto sales. Transfers to the SGRF in FY 1993 are estimated at \$22.5 million based on 30.0 percent of gross retail sales.

The Governor's FY 1993 recommendations assume \$72.0 million in lottery sales. Transfers of \$21.6 million to the SGRF are recommended in FY 1993. The Governor's recommended budget allows for an increase of slightly more than \$2.0 million above the expenditures recommended in FY 1991. Most of the increase (of slightly less than \$1.6 million) is attributed to \$930,000 for a new computer system, \$428,975 for additional advertisements and promotions, and \$100,000 for electronic signs.

Senate Subcommittee Recommendation

The Subcommittee concurs with the Governor's recommended expenditures, based on financing and projected lottery sales for FY 1993, with the following adjustments:

1. Delete \$930,000 recommended for a new computer and software system. The Subcommittee is not convinced that the agency has completed a sufficient needs analysis, and instead has preselected a particular vendor's software which will not run on the Lottery's existing computer systems, of which there are two different systems (an IBM System 36 and Tandem computers). The Lottery indicates that the proposed software package, known as ACCLAIMS, was recommended by Anderson Consulting (an affiliated unit of Arthur Anderson and Co., the Lottery's external auditing firm which has performed recent finance audits of the

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Lottery under contract to the Legislative Division of Post Audit). The new software would run on an IBM AS/400 platform, according to the Lottery's Information Plan, and the new computer would replace the two existing computers which have an estimated trade-in value of \$100,000. Both computers and operating software was purchased when the Lottery began operations in 1987, or almost five years ago. The Subcommittee would like to point out that the Lottery is exempted from certain statutory requirements pertaining to DISC review and approval of data processing acquisitions, and that H.B. 2579, which is pending in Senate Ways and Means, would remove those exemptions (among other things addressed by the bill). The Subcommittee is not convinced that the proposed purchase has been reviewed adequately by people outside the Lottery, and would propose that the Divisions of Information Systems and Communication and Purchases, as well as the Legislative Division of Post Audit review these matters.

2. Delete 3.0 FTE positions which are vacant in FY 1992. Savings are estimated at \$43,476 for salaries and benefits. The Lottery indicates that these positions were not going to be filled in FY 1992, but might be used relative to video lottery, Indian casinos and excursion boat gambling in FY 1993. The Subcommittee suggests that such positions be requested during Omnibus if pending legislation passes this Session.
3. Delete \$100,000 recommended for electronic signs to identify Lottery retailer outlets with flashing and blinking lights.
4. Amend S.B. 525 to reflect separate line items, with no limitation placed on-line communications and on-line vendor payments, and with specific limitations placed for salaries and wages and other operating expenditures to reflect amounts recommended by the Subcommittee.
5. Recommend that \$150,000 be transferred from the Lottery Operating Fund to the Kansas Bureau of Investigation to partially finance the costs of its Gaming Unit. The Subcommittee concurs with the Subcommittee on the Racing Commission which recommended that parimutuel funds should not be the only source of financing for this unit which is responsible for investigating criminal violations and other gambling-related activity in the state.
6. Note that the Governor's recommended FY 1993 sales estimate (which presumes no changes in the types of gambling within Kansas) is \$72.0 million, and that the Subcommittee would suggest revisiting this estimate during the Omnibus period since the various gambling proposals and other developments may negatively impact on the current type of lottery games offered by the Kansas Lottery. The Subcommittee's estimated FY 1993 ending balance is almost \$1.0 million more than the Governor's recommended balance.

Lottery Operating Fund Analysis. The revised FY 1993 beginning balance estimated by the agency is reduced by the Governor's recommendation to transfer in FY 1992 an additional \$2.0 million from the Lottery Operating Fund to the State Gaming Revenues Fund. The following


table summarizes the status of the Lottery Operating Fund as adjusted by the Subcommittee's recommendations:

<u>Resource Estimate</u>	<u>Agency Req. FY 1993</u>	<u>Gov. Rec. FY 1993</u>	<u>Subcommittee Adjustment</u>
Beginning Balance	\$ 4,036,125	\$ 2,109,428	\$ --
Net Receipts	49,071,000	47,141,000	--
Total Available	\$ 53,107,125	\$ 49,250,428	\$ --
Less State Operations	15,152,300	14,545,718	(1,073,476)
Less State Paid Prizes	11,864,000	11,834,000	--
Less Transfer to SGRF	22,500,000	21,600,000	--
Less Transfer to KBI	--	--	150,000
Ending Balance	\$ 3,590,825	\$ 1,270,710	\$ 923,476

<u>Lottery Operating Fund Expenditure Summary</u>	<u>Agency Req. FY 1993</u>	<u>Gov. Rec. FY 1993</u>	<u>Difference FY 1993</u>
Salaries and Wages	\$ 3,273,050	\$ 3,200,186	\$ (43,476)
On-line Telecommunications	1,542,300	1,542,300	--
On-line Vendor Commission	2,948,000	2,827,400	--
All Other State Operations	7,388,950	6,975,832	(1,030,000)
Total -- State Operations	\$ 15,152,300	\$ 14,545,718	\$ (1,073,476)

Summary. The Subcommittee recommendations would allow the Lottery to spend 18.7 percent of estimated net sales for state operations, compared with 20.2 percent recommended by the Governor. By statute, at least 45 percent must be paid in prizes and 30 percent must be transferred to the State Gaming Revenues Fund. The Lottery pays most of its retailers a commission of 5 percent to sell lottery tickets and shares.


 Senator Wint Winter, Jr.
 Subcommittee Chairperson


 Senator Frank Gaines

SUBCOMMITTEE REPORT

Agency: Kansas Racing Commission

Bill No. 547

Bill Sec. 7

Analyst: Efirid

Analysis Pg. No. 298

Budget Page No. 468

<u>Expenditure Summary</u>	<u>Agency Est. FY 92</u>	<u>Gov. Rec. FY 92</u>	<u>Subcommittee Adjustments</u>
State Operations:			
State Racing Fund	\$ 1,960,635	\$ 1,693,302	\$ 57,003
Reimbursable Expense Fund	632,061	667,510	(46,003)
Other Special Funds	25,000	27,000	--
Subtotal -- State Operations	<u>\$ 2,617,696</u>	<u>\$ 2,387,812</u>	<u>\$ 11,000</u>
Other Assistance:			
Greyhound Fund	\$ 684,250	\$ 684,250	\$ --
Horse Fund	354,900	354,900	--
Subtotal -- Other Assistance	<u>\$ 1,039,150</u>	<u>\$ 1,039,150</u>	<u>\$ --</u>
	<u>\$ 3,656,846</u>	<u>\$ 3,426,962</u>	<u>\$ 11,000</u>
FTE Positions	40.5	40.5	--

Agency Estimate/Governor's Recommendation

The Racing Commission estimates expenditures in the current fiscal year for state operations will not exceed current limitations approved by the 1991 Legislature. The Governor's recommendations include a reduction of \$267,333 in approved FY 1992 expenditures from the State Racing Fund and an increase of \$37,449 in the Racing Reimbursable Expense Fund. The FY 1992 reductions include \$150,000 for legal fees, \$45,932 for travel and subsistence, and increased salary turnover savings of \$56,487.

Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the Governor's recommendations, with the following exceptions and adjustments:

1. Increase the State Racing Fund expenditure limitation by \$46,003 in FY 1992 to correct a shift in financing which charged the Racing Reimbursable Expense Fund for nonreimbursable positions and decrease the Reimbursable Fund by the same amount. This action concurs with Governor's Budget Amendment No. 1 which partially addresses this shift by recommending a correction of \$27,651 for one of the positions involved.

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2. Increase funding for salaries and benefits by \$5,000 in FY 1992 to reduce recommended turnover savings from \$70,330 to \$65,330 charged against the State Racing Fund.
3. Add \$6,000 for travel and subsistence in FY 1992 from the State Racing Fund.

Special Revenue Funds. Two funds provide most of the financing for the State Racing Commission. The State Racing Fund receives receipts from the parimutuel tax, admissions tax, and licenses and fines. The Racing Reimbursable Expense Fund revenue comes from fingerprint fees and from assessments paid by the tracks for services rendered by certain state personnel, such as judges, stewards and animal health officers.

1. State Racing Fund Analysis. The Governor concurs with the agency's revenue estimates in FY 1992. By reducing recommended expenditures in FY 1992 from the amount requested by the agency, the Governor's recommendations provide additional funds for transfer to the SGRF. The Governor's estimated transfers to the SGRF total \$7,337,810 and to the KBI Gaming Unit total \$295,207 in FY 1992.

	Agency Req. FY 92	Gov. Rec. FY 92	Subcommittee Adjustments
State Racing Fund			
Beginning Balance	\$ 849,938	\$ 849,938	\$ --
Net Receipts	8,776,381	8,776,381	--
Total Funds Available	<u>\$ 9,626,319</u>	<u>\$ 9,626,319</u>	<u>\$ --</u>
Less Expenditures	1,960,635	1,693,302	57,003
Less Transfer to KBI	295,207	295,207	--
Less Transfer to SGRF	7,070,477	7,337,810	(57,003)
Ending Balance	<u><u>\$ 300,000</u></u>	<u><u>\$ 300,000</u></u>	<u><u>\$ --</u></u>

2. Racing Reimbursable Expense Fund Analysis. A negative beginning balance for FY 1992 is noted the agency's budget and is attributed to FY 1991 encumbrances of \$224,863 which have not been liquidated in the past six months. These outstanding encumbrances are deducted in the Governor's cashflow analysis and the FY 1992 beginning balance of \$185,644 reflects the adjustment to FY 1991 expenditures.

	Agency Req. FY 92	Gov. Rec. FY 92	Subcommittee Adjustments
Reimbursable Expense Fund:			
Beginning Balance	\$ (39,219)	\$ 185,644	\$ --
Net Receipts	632,061	669,510	(46,003)
Total Funds Available	<u>\$ 592,842</u>	<u>\$ 855,154</u>	<u>\$ (46,003)</u>
Less Expenditures	632,061	667,510	(46,003)
Ending Balance	<u><u>\$ (39,219)</u></u>	<u><u>\$ 187,644</u></u>	<u><u>\$ --</u></u>

SUBCOMMITTEE REPORT

Agency: Kansas Racing Commission

Bill No. 525

Bill Sec. 5

Analyst: Efirid

Analysis Pg. No. 298

Budget Page No. 468

<u>Expenditure Summary</u>	<u>Agency Req. FY 93</u>	<u>Gov. Rec. FY 93</u>	<u>Subcommittee Adjustments</u>
State Operations:			
State Racing Fund	\$ 2,077,221	\$ 1,659,791	\$ 172,527
Reimbursable Expense Fund	775,492	825,920	(158,027)
Other Special Funds	20,000	20,000	--
Subtotal -- State Operations	<u>\$ 2,872,713</u>	<u>\$ 2,505,711</u>	<u>\$ 14,500</u>
Other Assistance:			
Greyhound Fund	\$ 652,800	\$ 652,800	\$ --
Horse Fund	336,960	336,960	--
Subtotal -- Other Assistance	<u>\$ 989,760</u>	<u>\$ 989,760</u>	<u>\$ --</u>
	<u>\$ 3,862,473</u>	<u>\$ 3,495,471</u>	<u>\$ 14,500</u>
 FTE Positions	 45.5	 40.5	 --

Agency Request/Governor's Recommendation

For state operations, the Racing Commission requests an increase of slightly more than \$250,000 and an increase of 5.0 FTE positions. Increased financing is divided between the State Racing Fund and the Reimbursable Fund. The Governor's recommendations provide an increase of slightly less than \$118,000 above FY 1992 recommended expenditures. A reduction in financing from the State Racing Fund and an increase from the Racing Reimbursable Expense Fund are included in the Governor's recommendations. No additional FTE positions are recommended by the Governor.

Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the Governor's recommendations, with the following exceptions and adjustments:

1. Increase the State Racing Fund expenditure limitation by \$158,027 in FY 1993 to correct a shift in financing which charged the Racing Reimbursable Fund for nonreimbursable positions and decrease the Reimbursable Fund by the same amount. This action concurs with Governor's Budget Amendment No. 1 which partially addresses this shift by recommending a correction of \$27,813 for one of the positions involved.

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2. Increase funding for salaries and benefits by \$1,000 in FY 1993 to reduce recommended turnover savings from \$72,145 to \$71,145 charged against the State Racing Fund.
3. Add \$6,000 for travel and subsistence in FY 1993 from the State Racing Fund.
4. Add \$7,500 from the State Racing Fund for capital outlay of an unspecified nature in FY 1993.
5. Reduce \$150,000 of the \$321,485 recommended transfer from the State Racing Fund to the Kansas Bureau of Investigation for financing the Gaming Unit. The Subcommittee believes that alternative funding sources, such as the State General Fund and the Lottery Operating Fund ought to be providing additional financing of the KBI Gaming Unit, rather than being subsidized almost entirely by the State Racing Fund and parimutuel funding. Additionally, the reduction of \$150,000 will be used to offset partially the increase recommended in item 1 and to maintain transfers to the State Gaming Revenues Fund close to the level recommended by the Governor.
6. Recommend that the Racing Commission authorize a reduction of its carryover reserve from \$300,000 to \$200,000 and that a new agreement be made between the Executive Director of the Commission and the Director of Accounts and Reports pursuant to this matter, with an effective date to begin in July of FY 1993. The \$100,000 reduction will provide additional funding for added expenditures recommended by the Subcommittee and the remainder for transfer to the State Gaming Revenues Fund in early FY 1993 to make up for the \$57,003 decrease in the FY 1992 transfer.

Special Revenue Funds. Two funds provide most of the financing for the State Racing Commission. The Subcommittee's adjustments correct the apportionment of expenditures which should be financed by each of the funds. In addition, the Subcommittee adjustments reduce the ending balance of the State Racing Fund and the proposed transfer to the KBI in order to maintain the level of transfers to the SGRF as recommended by the Governor in FY 1993.

1. State Racing Fund Analysis. The Governor concurs with the agency's revenue estimates in FY 1993. By reducing recommended expenditures in FY 1993 from the amount requested by the agency, the Governor's recommendations provide additional funds for transfer to the SGRF. The Governor's estimated transfers to the SGRF total \$6,571,758 in FY 1993. Additional transfers recommended by the Governor include \$321,485 in FY 1993 for the KBI Gaming Unit.

	Agency Req. FY 93	Gov. Rec. FY 93	Subcommittee Adjustments
State Racing Fund			
Beginning Balance	\$ 300,000	\$ 300,000	\$ --
Net Receipts	8,553,034	8,553,034	--
Total Funds Available	<u>\$ 8,853,034</u>	<u>\$ 8,853,034</u>	<u>\$ --</u>
Less Expenditures	2,077,221	1,659,791	172,527
Less Transfer to KBI	--	321,485	(150,000)
Less Transfer to SGRF	6,475,813	6,571,758	77,473
Ending Balance	<u><u>\$ 300,000</u></u>	<u><u>\$ 300,000</u></u>	<u><u>\$ (100,000)</u></u>

2. Racing Reimbursable Expense Fund Analysis. A substantial increase in FY 1993 expenditures is reflected in both the agency's and Governor's estimates over estimated FY 1992 levels. The agency's estimate includes salaries and benefits for 5.0 new FTE positions which the Governor does not recommend. (Staff Note: Some of the Governor's recommended financing for salaries and benefits from the RREF may not be reimbursable.)

	Agency Req. FY 93	Gov. Rec. FY 93	Subcommittee Adjustments
Reimbursable Expense Fund:			
Beginning Balance	\$ (39,219)	\$ 187,644	\$ --
Net Receipts	775,492	825,920	(158,027)
Total Funds Available	<u>\$ 736,273</u>	<u>\$ 1,013,564</u>	<u>\$ (158,027)</u>
Less Expenditures	775,492	825,920	(158,027)
Ending Balance	<u><u>\$ (39,219)</u></u>	<u><u>\$ 187,644</u></u>	<u><u>\$ --</u></u>



 Senator Ross Doyen
 Subcommittee Chairperson



 Senator Nancy Parrish

SUBCOMMITTEE REPORT

Agency: Department of Commerce

Bill No. 547

Bill Sec. 8

Analyst: West

Analysis Pg. No. 304

Budget Page No. 116

Expenditure Summary	Agency Est. FY 92	Gov. Rec. FY 92	Subcommittee Adjustments
All Funds:			
State Operations	\$ 8,073,453	\$ 8,120,334	\$ 61,560
Local Aid	16,096,187	16,096,187	--
Other Assistance	7,884,410	7,884,410	100,000
TOTAL	\$ 32,054,050	\$ 32,100,931	\$ 161,560
State General Fund:			
State Operations	\$ 2,183,350	\$ 2,161,633	\$ 1,560
Economic Development Initiatives Fund:			
State Operations	\$ 4,276,792	\$ 4,285,504	\$ 60,000
Local Aid	445,000	445,000	--
Other Assistance	3,290,000	3,290,000	100,000
TOTAL	\$ 8,011,792	\$ 8,020,504	\$ 160,000
FTE Positions	99.0	99.0	--

Agency Estimate/Governor's Recommendation

FY 1992 -- 1. State Operations. The Department of Commerce proposes an FY 1992 state operations budget of \$8,073,453 and 99.0 FTE positions. The estimate reflects a net increase of \$147,089 from the approved FY 1992 budget, including a \$3 increase in State General Fund expenditures, an \$8,712 decrease in EDIF expenditures, a net increase of \$182,633 in federal funds and a net decrease of \$26,835 from other funding sources. The agency requests authority to receive a federal grant of \$149,250 for economic development research. In addition, the agency requests expenditure limitation increases of \$60,287 (from \$62,419 to \$122,706) on the Low Income Housing Tax Credit Fee Fund and of \$47,186 (from \$382,934 to \$430,120) on the Community Development Block Grant Administrative Match-Federal Fund (CDBG fund). The agency states the requested increases are to fund federally mandated monitoring functions for those programs. Subsequent to the submission of the agency's budget, the State Finance Council authorized an expenditure limitation increase of \$107,692 (from \$382,934 to \$490,626) on the CDBG fund.

The Governor recommends an FY 1992 state operations budget of \$8,120,334 and 99.0 FTE positions. The current year recommendation represents a net increase of \$46,881 compared to the agency's estimate, including a decrease of \$21,717 from the State General Fund, an increase of \$8,712 in EDIF expenditures, a net increase of \$60,349 in federal funds, and a net decrease of \$463 from other funds. The Governor concurs with the agency's request to expend a federal grant of

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\$149,250 and for the expenditure limitation increase on the Low Income Housing Tax Credit Fee Fund. The Governor's recommendation reflects the current authorized level of expenditures from the CDBG fund. Major changes from the agency's estimate include a net increase of \$31,577 in salaries associated with a decrease in fringe benefit costs and the addition of \$71,892 to begin hiring 8.0 special project positions to staff a proposed Housing Division. Other operating expenses are increased by \$15,304, reflecting increases in printing (\$10,000), travel (\$10,000), and professional fees (\$30,000); and decreases in communications (\$14,696) and other service fees (\$20,000).

2. Local Aid. The agency estimates that payments to local units of government will total \$16,096,187 in FY 1992, a net increase of \$350,304 from the approved budget. Changes include an increase of \$282,117 in grants under the CDBG program, a \$38,471 decrease in Emergency Shelter Grants, and the addition of grants under the federal Rental Rehabilitation program (\$8,000) and new loans from the repayment of prior year infrastructure loans under the Partnership program (\$98,658). The Governor concurs with the agency's estimate for local aid.

3. Other Assistance. The agency estimates other assistance payments in FY 1992 will total \$7,884,410, which reflects a decrease of \$109,611 in payments under the federal Housing Assistance Program and the addition of \$3,000,000 in expenditures under the State of Kansas Investments in Lifelong Learning (SKILL) program created by the 1991 Legislature. The Governor concurs with the agency's estimate for other assistance.

Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the Governor's FY 1992 recommendations, with the following adjustments:

1. As a technical adjustment, restore \$1,560 from the State General Fund for salaries.
2. As a technical adjustment, appropriate a fund to allow the agency to expend federal funds received for economic development research.
3. Add \$100,000 for the EDIF for tourist attraction development grants pursuant to K.S.A. 74-5091, with the provision for the reappropriation of any unexpended FY 1992 funds to FY 1993.
4. Add \$60,000 from the EDIF to support the upcoming Bloomingdale's promotion and other trade promotion activities. The Subcommittee directs the agency to coordinate its activities with the State Board of Agriculture to ensure the promotion of the broad array of Kansas products which are available.



 Senator August Bogina, Jr., Chairperson



 Senator Paul Feleciano, Jr.

SUBCOMMITTEE REPORT

Agency: Department of Commerce

Bill No. 525

Bill Sec. 6

Analyst: West

Analysis Pg. No. 304

Budget Page No. 116

<u>Expenditure Summary</u>	<u>Agency Req. FY 93</u>	<u>Gov. Rec. FY 93</u>	<u>Subcommittee Adjustments</u>
All Funds:			
State Operations	\$ 11,462,501	\$ 9,141,645	\$ 74,279
Local Aid	21,659,813	20,659,813	2,961,000
Other Assistance	11,968,327	19,781,947	--
TOTAL	<u>\$ 45,090,641</u>	<u>\$ 49,583,405</u>	<u>\$ 3,035,279</u>
State General Fund:			
State Operations	\$ 2,114,234	\$ 3,017,804	\$ (175,721)
Economic Development Initiatives Fund:			
State Operations	\$ 7,587,184	\$ 4,020,608	\$ 250,000
Local Aid	1,445,000	445,000	--
Other Assistance	3,350,000	3,560,894	--
TOTAL	<u>\$ 12,382,184</u>	<u>\$ 8,026,502</u>	<u>\$ 250,000</u>
FTE Positions	105.5	104.5	6.0

Agency Request/Governor's Recommendation

FY 1993 -- 1. State Operations. The agency proposes an FY 1993 state operations budget of \$11,462,501 and 105.5 FTE positions. The request is an increase of \$3,389,048 from the current year estimate, including a decrease of \$69,116 from the State General Fund, and increases of \$3,310,392 from the EDIF, \$3,169 from federal funds, and \$144,603 from other funding sources. Changes from the current year include the addition of \$480,945 for 7.0 FTE and 7.0 special project new positions, with the elimination of an existing 0.5 FTE position. Five of the requested special project positions would serve as Development Specialists who would be responsible for developing and coordinating economic development programs. The FY 1993 request also includes \$1,637,566 for increased tourism promotions (\$1,371,221) and industrial recruiting activities (\$266,345).

The Governor recommends an FY 1993 state operations budget of \$9,141,645 and 104.5 FTE positions. The recommendation is a net increase of \$1,021,311 from the current year recommendation, including a decrease of \$264,896 from the EDIF and increases of \$856,171 from the State General Fund, \$363,309 from federal funds, and \$66,727 from other funding sources. With the issuance of Executive Reorganization Order No. 23, the Governor proposes to change the agency's name to the Department of Commerce and Housing, with the creation of a new Division of Housing. The new division would include the agency's current housing programs, selected programs from the Department of Social and Rehabilitation Services (SRS), a new Housing Policy

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Group, and staffing for the new federal HOME housing initiative. The FY 1993 recommendation includes \$420,489 from federal funds for 5.0 FTE and 1.0 special project positions (\$228,909) and other operating expenses (\$191,580) associated with the housing programs to be transferred from SRS. The FY 1993 recommendation also includes \$7,687 for an additional 0.5 FTE clerical position in the Administration Division, an increase of \$174,932 associated with the annualization of salaries for special project positions for the proposed Housing Division, and an increase of \$101,154 for industrial recruitment activities.

2. Local Aid. The agency requests \$21,659,813 for aid to local units of government in FY 1993. The request includes grants of \$16,000,000 through the CDBG program, \$9,360 for Rental Rehabilitation assistance, \$466,703 for Emergency Shelter Grants, \$1,138,750 for infrastructure loans, \$445,000 for grants under the Community Strategic Planning Assistance program, and \$3,600,000 under the new federal HOME federal housing assistance program. The Governor's recommendation of \$20,659,813 for aid to local units of government in FY 1993 reflects a decrease of \$1,000,000 from the agency's request for infrastructure loans.

3. Other Assistance. The agency requests \$11,968,327 for other assistance payments in FY 1993. The request includes \$7,000,000 for payments under the SKILL program, \$2,250,000 under the Kansas Industrial Training and Retraining programs, \$475,000 for grants to Certified Development Companies, \$325,000 for grants to Small Business Development Centers, \$200,000 for Trade Show Assistance, \$100,000 for Tourism Matching Grants, and \$1,618,327 in federal payments under the Housing Assistance program.

The Governor's FY 1993 recommendation for other assistance of \$19,781,947 reflects an increase of \$7,813,620 from the agency's request. The recommendation includes increases from the agency's request for Tourism Grants (\$190,000) and Trade Show Assistance (\$20,894) and \$7,602,726 for programs proposed to be transferred from SRS. Programs proposed for transfer include Weatherization grants (\$4,374,051), an Emergency Homeless grant (\$348,295), and the Community Services Block Grant (\$2,880,380).

Senate Subcommittee Recommendation

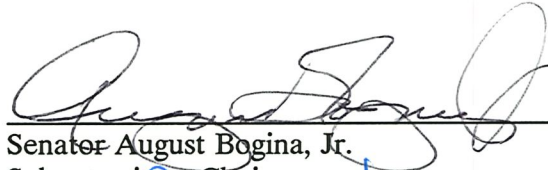
The Senate Subcommittee concurs with the Governor's FY 1993 recommendation, with the following adjustments:

1. As a technical adjustment, add \$5,119 from the State General Fund to reflect lower reappropriations from FY 1992 (\$1,560) and funding required to achieve the Governor's recommended level of turnover savings of 4.0 percent of State General Fund and EDIF financed salaries (\$3,559).
2. As a technical adjustment, appropriate a fund to allow the agency to expend federal funds received for economic development research.
3. As a technical adjustment, add language to transfer oil overcharge funds of \$1,000,000 for weatherization grants, as recommended by the Governor.
4. The Subcommittee notes that the recommended FY 1993 budget for the agency is based on the assumption that ERO No. 23 will be approved. Should the ERO be rejected or substantially modified, this agency's budget may need to be revisited.

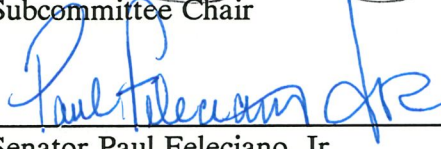
5. Based on revised estimates of the funding available, increase the expenditure limitation for the new federal HOME housing initiative from \$3,600,000 to \$6,561,000. The Subcommittee has been informed that the agency is exploring utilizing nonstate resources for any matching funds the program may require in the future. The Subcommittee strongly recommends that the agency aggressively pursue nonstate matching options, including the programs offered by the Federal Home Loan Bank. The Subcommittee further recommends that the agency explore if program funding from the Federal Home Loan Bank may be used for administrative expenses of the proposed Housing Division and report the results to the House Subcommittee on this agency.
6. The Subcommittee concurs with the recommendations of the Senate Economic Development Committee that a comprehensive statewide needs analysis must be conducted as the first step in the development of major housing initiatives and that the number of new employees proposed for the new Division prior to the completion of such a needs assessment appears premature. The Subcommittee recommends a reduction of \$179,280 from the State General Fund and 6.0 special project positions from the FY 1993 recommendation.
7. Reduce the expenditure limitation on the Greyhound Tourism Fund from \$200,000 to the Governor's recommended expenditure level of \$120,752.
8. The Subcommittee notes that the agency requested funding for a feasibility study for a Visitor Information Center along I-35 in the Kansas city area. The Subcommittee does not feel a study is required and encourages the agency to develop cost estimates and siting options for the proposed facility. The Subcommittee also encourages the agency to seek the cooperation of the Board of Agriculture, the Kansas Agricultural Value Added Processing Center, and the private sector in acquiring Kansas products to be offered through the Centers.
9. The Subcommittee notes that the Commission on Waste Reduction, Recycling and Market Development is scheduled to expire at the end of the current fiscal year. The Subcommittee recommends that the Commission be allowed to expire.
10. The Subcommittee notes that the SKILL program is in the process of finalizing rules and regulations to operate the program, with a tentative implementation time in late April. The Subcommittee also notes that the first project under the program will be the Santa Fe relocation to Topeka, a project which was not contemplated when the SKILL legislation was considered by the 1991 Legislature. The Subcommittee recommends that the Secretary of Commerce include a provision in all SKILL projects which would require the repayment of benefits received by a firm if that firm does not maintain the projected number of jobs during the term of the bonds which were issued to finance the project.
11. The Subcommittee notes that the agency has testified that a reduction of 19 percent in State General Fund and EDIF resources was applied to the agency between FY 1991 and FY 1992 and the number of FTE positions was reduced from 114.0 to 99.0. The Subcommittee notes that the resulting personnel and programmatic disruptions, as well as the start up of the expanded housing programs, has resulted in a large increase in the number of special project positions (which do not count as FTE)

existing in the agency. While the Subcommittee understands the reasons for including these positions as special projects in the current year, the Subcommittee does not believe that permanent employees should be maintained as special project positions. The Subcommittee recommends the addition of 6.0 FTE positions. In order to avoid further programmatic and personnel disruptions, the Subcommittee recommends the addition of a proviso which places the incumbents of those positions into the classified service.

12. Add \$50,000 from the EDIF for trade representative contracts.
13. Add \$200,000 from the EDIF to allow the state to participate in the promotion of Kansas products at Harrods Department Store. The Subcommittee directs that the agency coordinate and cooperate with the State Board of Agriculture to ensure the maximum promotion of Kansas products. The Subcommittee also notes that Kansas State University is participating in the Coca Cola Bowl in Tokyo and that an industrial recruitment mission is planned to coincide with this event. The Subcommittee would note the importance of this event and recommends that the agency allocate sufficient resources from its budget to support it.



Senator August Bogina, Jr.
Subcommittee Chair



Senator Paul Feleciano, Jr.

SUBCOMMITTEE REPORT

Agency: Kansas, Inc.

Bill No. --

Bill Sec. --

Analyst: West

Analysis Pg. No. 326

Budget Page No. 374

<u>Expenditure Summary</u>	<u>Agency Est. FY 92</u>	<u>Gov. Rec. FY 92</u>	<u>Subcommittee Adjustments</u>
All Funds	\$ 424,404	\$ 423,742	\$ --
State General Fund	184,889	184,445	--
Economic Development Initiatives Fund	99,462	99,462	--
FTE Positions	4.0	4.0	--

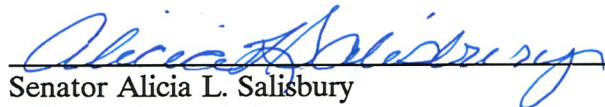
Agency Estimate/Governor's Recommendation

The agency's current year estimate of \$424,404 reflects an increase of \$1,164 in donations from the approved budget. The agency's estimate of state financed expenditures (\$284,351) would be matched on a 67/33 ratio by \$140,053 from private sources per K.S.A. 1991 Supp. 74-8009a.

The Governor's current year recommendation of \$423,742 reflects a reduction of \$662 from the agency's estimate for salaries and includes \$139,835 from private sources.

Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the Governor's current year recommendation.



 Senator Alicia L. Salisbury
 Subcommittee Chair



 Senator Nancy Parrish

SUBCOMMITTEE REPORT

Agency: Kansas, Inc.

Bill No. 525

Bill Sec. 7

Analyst: West

Analysis Pg. No. 304

Budget Page No. 374

<u>Expenditure Summary</u>	<u>Agency Req. FY 93</u>	<u>Gov. Rec. FY 93</u>	<u>Subcommittee Adjustments</u>
All Funds	\$ 462,732	\$ 1,922,629	\$ 14,125
State General Fund	179,037	1,682,288	9,463
Economic Development Initiatives Fund	129,452	100,874	--
FTE Positions	5.0	4.0	--

Agency Request/Governor's Recommendation

The agency's FY 1993 request of \$462,732 represents an increase of \$38,328 from the current year estimate. Major changes requested by the agency include increases of \$22,427 for a new Office Assistant IV position, \$6,426 for equipment acquisition, and \$4,204 in contractual research. Net other changes increase total expenditures by \$5,271. The requested FY 1993 budget would be matched by \$154,243 from private sources. The requested EDIF financing would be used for salaries (\$46,619) and other operating expenses (\$82,833).

The Governor's FY 1993 recommendation of \$1,922,629 represents an increase of \$1,498,887 over the current year recommendation. The FY 1993 recommendation includes \$1,500,000 from the State General Fund to match federal funding for basic scientific research at the state's universities. This funding would be exempted from the agency's statutory match provisions. Other major changes from the current year recommended for FY 1993 include an increase of \$5,959 in salaries and a decrease of \$7,796 in contractual research. Net other changes increase total expenditures by \$724. The Governor does not recommend the requested new position. The Governor's FY 1993 recommendation includes matching funds of \$139,467 from private sources.

Senate Subcommittee Recommendations


The Senate Subcommittee concurs with the Governor's FY 1993 recommendation, with the following adjustments:

1. Add \$9,463 from the State General Fund for part-time clerical assistance to permit the agency's professional staff to concentrate on more important duties.
2. In order to maintain the statutory match rate of 67/33, add \$4,662 from private sources for contractual research.
3. The Subcommittee notes that the 1986 Legislature created Kansas, Inc to be the state's economic development "think tank" and to serve as a public/private guide

*SWAM
February 25, 1992
Attachment 10-2*

for the state's long-term economic development strategy. The Subcommittee is concerned that requests for special research by the executive and legislative branch as well as staffing for entities such as the Information Network of Kansas and the Commission on Natural Gas Policy may be diverting Kansas, Inc.'s staff from this purpose. The Subcommittee recommends that the Board of Directors of Kansas, Inc. assess these obligations and endeavor to redirect the agency's focus back to developing a public/private consensus on the vision of Kansas. The Subcommittee agrees with the Board of Kansas, Inc. that if Kansas, Inc. is to build on its successful record of the past five years and meet the aspirations of the public and private sectors, it must focus its energies and activities on those limited number of issues and tasks considered by the Board as critical to Economic Development in its role as a strategic planning, oversight, and policy advisory body. The Subcommittee supports the high priority the Kansas, Inc. Board places on refining a vision statement and building a consensus on the statement.

4. The Subcommittee concurs with the Governor's recommendation of \$1.5 million from the State General Fund in FY 1993 to match federal funding for the experimental program to stimulate competitive research (EPSCOR). The Subcommittee notes the strong support given to this program by the Joint Committee on Economic Development and the Joint Committee's understanding that a portion of the state's matching support would be applied to initiate the building of a video communication network linking research universities with secondary level teachers for purposes of training and other enhancement programs in science and mathematics.



Senator Alicia L. Salisbury
Subcommittee Chair



Senator Nancy Parrish

SUBCOMMITTEE REPORT

Agency: Kansas Technology
Enterprise Corporation

Bill No. --

Bill Sec. --

Analyst: West

Analysis Pg. No. 329

Budget Page No. 400

<u>Expenditure Summary</u>	<u>Agency Est. FY 92</u>	<u>Gov. Rec. FY 92</u>	<u>Subcommittee Adjustments</u>
All Funds:			
State Operations	\$ 1,449,362	\$ 1,437,832	\$ --
Other Assistance	7,880,534	7,880,534	--
Total	<u>\$ 9,329,896</u>	<u>\$ 9,318,366</u>	<u>\$ --</u>
State General Fund:			
State Operations	\$ --	\$ --	\$ --
Other Assistance	--	--	--
Total	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Economic Development Initiatives Fund:			
State Operations	\$ 1,449,362	\$ 1,437,832	\$ --
Other Assistance	6,380,534	6,380,534	--
Total	<u>\$ 7,829,896</u>	<u>\$ 7,818,366</u>	<u>\$ --</u>
FTE Positions	11.5	11.5	--

Agency Estimate/Governor's Recommendation

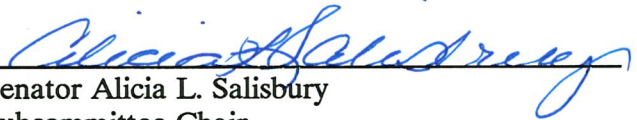
FY 1992. The agency estimates that current year expenditures will total \$9,329,896, including \$7,829,896 from the Economic Development Initiatives Fund (EDIF) and \$1,500,000 from federal sources associated with the new Mid America Manufacturing Technology Center (MAMTC). The current year estimate includes salaries of \$782,889 for the support of 8.0 FTE positions associated with the Kansas Technology Enterprise Corporation (KTEC -- \$368,184), 3.5 FTE positions associated with the Kansas Agricultural Value Added Processing Center (KVAC -- \$161,827), and 6.0 FTE special project positions associated with MAMTC (\$252,878). Other state operations expenses are expected to total \$666,473 for KTEC (\$302,351), KVAC (\$51,000), and MAMTC (\$313,122). Grants and other assistance payments are expected to be \$7,880,534 from KTEC (\$5,508,009), KVAC (\$438,525), and MAMTC (\$1,934,000).

The Governor's current year recommendation of \$9,318,366, including \$7,818,366 from the EDIF, reflects a decrease of \$12,352 from the agency's estimate for salaries and an increase of \$822 for professional services, for a net decrease of \$11,530.

*SWAM
February 25, 1992
Attachment 11*

Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the Governor's current year recommendation.



Senator Alicia L. Salisbury
Subcommittee Chair



Senator Nancy Parrish

SUBCOMMITTEE REPORT

Agency: Kansas Technology
Enterprise Corporation

Bill No. 525

Bill Sec. 8

Analyst: West

Analysis Pg. No. 329

Budget Page No. 400

<u>Expenditure Summary</u>	<u>Agency Req. FY 93</u>	<u>Gov. Rec. FY 93</u>	<u>Subcommittee Adjustments</u>
All Funds:			
State Operations	\$ 1,782,998	\$ 1,701,764	\$ --
Other Assistance	11,823,325	8,954,366	100,000
Total	<u>\$ 13,606,323</u>	<u>\$ 10,656,130</u>	<u>\$ 100,000</u>
State General Fund:			
State Operations	\$ --	\$ --	\$ --
Other Assistance	--	--	--
Total	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Economic Development Initiatives Fund:			
State Operations	\$ 1,782,998	\$ 1,701,764	\$ --
Other Assistance	8,823,325	5,954,366	100,000
Total	<u>\$ 10,606,323</u>	<u>\$ 7,656,130</u>	<u>\$ 100,000</u>
FTE Positions	11.5	11.0	--

Agency Request/Governor's Recommendation

FY 1993. The FY 1993 request for programs budgeted under KTEC totals \$13,606,323 and would be financed by \$10,606,323 from the EDIF and \$3,000,000 from federal funds. The request is an increase of \$4,276,427 from the current year, including \$2,776,427 from the EDIF and \$1,500,000 from federal funds.

The Governor recommends \$10,656,130 in FY 1993 for programs budgeted under KTEC, financed by \$7,656,130 from the EDIF and \$3,000,000 from federal funds. The recommendation is a net increase of \$1,337,764 from the current year, including an increase of \$1,500,000 from federal funds and a decrease of \$162,236 in EDIF financing.

1. **KTEC.** The FY 1993 request for KTEC totals \$8,930,000 from the EDIF, including \$386,811 for salaries, \$384,864 for other state operations expenses, and \$8,158,325 for grants and other assistance. The request is an increase of \$2,751,456 from the current year estimate for salaries (\$18,627), the biennial peer review of the Centers of Excellence (\$40,000), other state operations (\$42,513), and grants and assistance (\$2,650,316).

The FY 1993 recommendation for KTEC totals \$6,033,425 from the EDIF, including \$376,708 for salaries, \$342,351 for other state operations expenses, and \$5,314,366 for grants and

assistance. The FY 1993 recommendation reflects increases for salaries (\$18,872) and peer review (\$40,000) and a decrease of \$193,643 in grants and assistance compared to the current year recommendation.

2. **KVAC.** The FY 1993 request for KVAC totals \$676,323 from the EDIF for salaries (\$173,823), other state operations expenses (\$65,500), and grants and assistance (\$437,000). The request is \$24,971 above the current year and includes increases in salaries (\$11,996) and other state operations (\$14,500) and a decrease of \$1,525 in grants and assistance.

The FY 1993 recommendation for KVAC totals \$622,705 from the EDIF for salaries (\$155,205), other state operations expenses (\$55,500), and grants and assistance (\$412,000). The FY 1993 recommendation is a net decrease of \$27,465 from the current year recommendation of \$650,170, reflecting decreases in salaries (\$5,440) and grants and assistance (\$26,525) and an increase of \$4,500 for other state operations expenses. The Governor recommends the elimination of the 0.5 FTE graduate assistant in FY 1993.

3. **MAMTC.** The budget request for the first full year of operations for MAMTC is \$4,000,000, including \$1,000,000 from the EDIF and \$3,000,000 from federal sources. The request includes \$432,647 for the salaries of 6.0 special project positions, \$339,353 for other state operations expenses, and \$3,228,000 for grants and assistance. The request represents an increase of \$1,500,000 in federal funds from the current year estimate and would support increased expenditures for salaries (\$179,769), other state operations expenses (\$26,231), and grants and assistance (\$1,294,000). The relatively large increase for salaries is mostly attributable to delays in hiring personnel in the current year.

The Governor concurs with the agency's request of \$4,000,000 in FY 1993 for support of MAMTC.

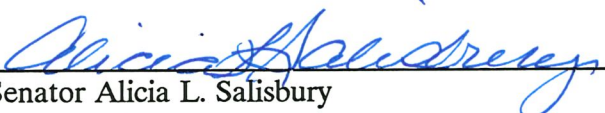
Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the Governor's FY 1993 recommendation, with the following adjustments:


1. The Subcommittee notes that the National Association of State Development Agencies' *Management Review of the Kansas Technology Enterprise Program* reported, in part, that the agency's Special Projects program "allow(s) KTEC to respond to emerging opportunities, allowing needed flexibility in program operations." Examples of activities supported with special project funds include assistance in the development of two way interactive video, support for a network to expand the use to total quality management techniques, program support for the development of industrial uses for agricultural products, continued development of a model which would accurately predict the return on public investment in a particular program, and more recently the commercialization of KTEC supported research. The Subcommittee would also note that through January of this year a total of \$166,121 of additional resources for the EDIF have resulted from the cancellation of previously encumbered projects from prior years in the Department of Commerce. The Subcommittee recommends the addition of \$100,000 from these resources to support the Special Projects program. The

resulting FY 1993 recommendation of \$341,041 is a 20.7 percent reduction from the current year recommendation of \$430,000.

2. The Subcommittee notes that support for the Centers of Excellence remain an important component of KTEC's programs. This is exemplified by the observation that the requested level of \$4,500,000 in FY 1993 support represents 42.4 percent of the state funding requested by the agency. The Governor's recommended level of \$3,215,000 provides the same funding as was provided in FY 1991 and FY 1992. Should additional resources become available to the EDIF, the Subcommittee recommends that consideration be given to increasing support for the Centers of Excellence. It should be noted that the Centers of Excellence are projects eligible for EDIF support.
3. The Subcommittee notes that while the federal grant to support MAMTC covers six years, any appropriations of state funds will be subject to the annual review of the Governor and the Legislature. The Subcommittee encourages the Board of Directors of MAMTC to structure the program, as it matures, to maximize private sector financial support.



Senator Alicia L. Salisbury
Subcommittee Chair



Senator Nancy Parrish



Joan Finney
Governor

Kansas Lottery

Ralph W. E. Decker
Executive Director

M E M O R A N D U M

To: Senator Wint Winter
Senator Frank Gaines

From: John Roberts, Director of Administration *JMR*

Date: February 21, 1992

Re: Request for Computer Hardware and Software

Enclosed is a summary of the Kansas Lottery's need for new computer hardware and software -- which will require Legislative approval. First section describes the deficiencies of the current equipment, and the remaining three sections outline options available and comparative costs.

To Synopsize:

* WHY IS NEW HARDWARE AND SOFTWARE NEEDED?

The Tandem hardware currently being used by the Kansas Lottery will cease to be supported by the manufacturer after July, 1993. This hardware was not state-of-the-art when it was installed in 1987. The Lottery acquired this hardware from British American Bank Note (BABN) in a package with software needed for start-up. This same hardware and software is being used by all departments to conduct daily Lottery business. Disruption in computer service would result in loss of revenue. Loss of continued service/support from the manufacturer could disrupt all Lottery operations.

The explosive growth of the lottery industry has caused unexpected demands on lottery computer systems. The software acquired by the Kansas Lottery in 1987 does not contain many features needed to conduct today's business. (See attached documents.)

* OPTION 1: Replace Current Hardware and Software

This option provides the same modern computer hardware and software being used by other lotteries. Hardware and software deficiencies would be eliminated and Lottery needs would be met for the foreseeable future.

This option has been recommended and met approval of the DISC analyst assigned to the Lottery. In addition, the option has been reviewed by the Division of the Budget and has been recommended by the Governor in the FY93 budget.

Estimate of hardware and software costs:
\$930,000 - \$1,070,999

(Exact cost would be determined by RFP)

* OPTION 2: Replace Existing Hardware and Re-write Existing Software

This option would provide modern hardware and improved software, after an indeterminate, but significant, length of time (initial estimate, three years minimum). Three additional staff members would be needed -- and the current deficiencies would not be resolved until completion. Project would require acquisition and integration of a general ledger package.

Estimated hardware costs: \$145,000
Estimated cost of added staff: 170,000
Estimated cost of general ledger: 60,000

* OPTION 3: Keep Existing Hardware and Software

This option is the least desirable. As stated above, lack of hardware manufacturer's service/support could result in the Lottery's computer hardware being unusable -- severely impacting the Lottery's ability to generate revenue.

Software deficiencies noted on the attached documents could not be resolved. As stated above, this would impede the Lottery's ability to effectively conduct business. The negative impact would certainly continue to compound in future years.

I welcome the opportunity to address the full Senate Ways and Means Committee on this subject.



Joan Finney
Governor

Kansas Lottery

Ralph W. E. Decker
Executive Director

TO: John Roberts, Director of Personnel
FROM: Frank Calvillo, DP Systems Analyst
DATE: February 25, 1992
SUBJECT: Age of Tandem equipment

A Tandem representative notified me that the EXT/25 processors are approximately 12 years old and the TXP processors are 9 years old. In view of the rate which technology develops, these figures put the equipment in the obsolete state.

The Acclains audit report dated January 1990, presented various areas of concern for the Lottery for the following areas:

Results of external and legislative audits
Limitations to current gaming system
Multiple computer environments
Future needs

I will attempt to answer each area as presented from the report.

EXTERNAL and LEGISLATIVE AUDITS

1. A self-sufficient foundation.
2. Reduction of administrative costs:
 - Salaries and wages

The introduction of any new system and software will impact the Lottery in that the DP section must still produce the information for normal operations while at the same time learn to operate and maintain the new system(s).

- Professional services

Currently the only professional services that the Lottery incurs are for hardware and operations software maintenance. When a new system is introduced these same costs will be incurred with the exception being that added services will need to be retained to allow the Lottery staff ample time to become experienced enough with the system to manage the various maintenance and reporting processes requested of them.

- Telecommunications costs

This cost to the Lottery will remain as long as the need for communicating with retailers for ordering of various gaming products remains.

- Travel

The travel requirements stem from the Lottery's needs for education, security or contract negotiation, this area would be under education for the DP section.

3. Document dollar transfers to ensure compliance with Kansas statues and legislated mandates.

The Lottery would still have to obtain a GL package which would meet the requirements of the Legislature.

4. Ensure development of financial reports on timely basis.

The creation of reports is totally dependent upon the availability of data and the various users providing the DP section with information as to their needs. Many departments DO NOT know what information that they need.

5. Implement integrated financial reporting.

This is the result of a GL package and requests from other departments to fulfill there needs.

LIMITATIONS OF CURRENT INSTANT GAME SYSTEM

1. The current Instant Game system, running on the Tandem hardware, has an inflexible design which does not adequately support the current needs of the Kansas Lottery. Key deficiencies include:

- Weak financial processing support:
 - Many of the Instant Game transactions are either manually created or processed.

The Lottery again needs a GL package of which the currently maintained data would be funneled into the GL program. An alternative presently would to download the data from the Tandem to a PC diskette daily, then given to the accounting department. This data could be uploaded directly into the GL software (PSAS). The Lottery's stand at one time was for batch processing of GL data. Also the configuration of the current Tandem system inhibited the realtime processing of data, which would benefit the Lottery, but not to any measurable degree.

- Other transactions are manually processed, such as the purchasing transactions.

Again, this would be part of the GL packages inputs. The information for purchases would not magically appear on any system. They must be input some how so that manually input data is not uncommon.

- There is no consolidation of financial information for the Instant Game and the Online Game, such as consolidated sales and billing.

There has not been a request to consolidate the data and until the newly written software, by the Lottery staff, was the data ever available on the Tandem system. One reason for a time lag again stems from a small staff.

- The system supports only 3 concurrent games. This affects both sales and costs. Sales are affected because no additional games can be started while three other games are active and typically, sales fall off during the later stages of a game. Costs area affected in that if a fourth game is started, the oldest game is ended at that point. This results in significant returns processing, ticket shredding and lost sales.

The software has been changed to take advantage of this need so that we currently operate with 10 active games. Ten games were used to determine actual system space requirements, so that we could change this limit at any time. The BABN software could have accepted the Pulltab games had the Lottery staff examined the software carefully. The game file contains a field which could be used to define the games structure and requirements for billing and ordering. Here is a case of poor planning, investigating and designing on the Lottery's part.

- There is no exempt player validation check done by the system. This check must be done manually, which could result in ineligible players (such as lottery employees or vendors) claiming prizes.

This problem has always existed and has not been addressed by the Lottery. The process of checking for valid players is relatively easy to implement, but it would have to take the commitment on the Lottery's part to be effective.

- There is weak support for sales reporting and analysis, which does not allow the Lottery to focus on those components that increase sales.

The Sales department in the past has requested

sales reports, which the DP section has provided, which they in turn have not used. They were to show returns by retailer for each DM, to show sales per DM per county and returns per county. They have not used the reports nor would they acknowledge their existence. Each of the directors of the Sales department since Mark Hutcherson, have refused to use the reports. Why?

The DP section will and can write most reports that are requested, but the key here is that they must request the information for us to know of their needs.

2. There is redundant data on the Instant Game and Online Game systems: retailer information, sales information, billing information, and other financial information. This results in manual consolidation of the data and raises the possibility of inconsistent data.

The Tandem system is a fault-tolerant redundant system. What this means is that all of the data that is captured is written twice. The data is not accessible in both storage areas simultaneously, thus eliminating the chance for using the data twice.

The fault-tolerant portion ensures us that in the event of hardware failure in one component that the alternate component is up and running with no downtime or general effect upon the normal data processing operations. The system flags a message to the operator of the event for diagnosis and continues until the problem is corrected. The statement implies that redundant systems are not needed when in fact there is a video package from a company in New Jersey which uses a system 88 (IBM) that is fault-tolerant, to ensure continuous processing.

3. There is a slow turnaround for mid/high tier prize payments. Although this is a policy issue, the current system cannot support payments at the Lottery locations if the policy is changed.

It is true that the prize payment system is limited to payment from the department of Revenue, but the logic is basically in place for the Lottery to change over for check printing in the regional offices.

4. There are high ongoing costs associated with both the application software and the hardware. Some of the cost considerations include:
 - Maintenance of application software is expensive and time consuming due to:

- Inflexible system design

This is due more to poor system design and poor management of the system, plus the lack of documentation and a firm policy and procedure statement governing the operations of the DP section.

- Complex programming language

COBOL is a widely used programming language of which the Lottery is able to obtain qualified programmers. Tandem utilizes various software to manage the realtime environment, which the programmers need training in, but this can be accomplished on the job in many cases.

- Complex operating system characteristics

Each and every operating system is complex until enough time is spent in training and operations. The Tandem system is no different than any other system, it may be easier for some and harder for others.

- Poorly documented application software

This comes from the requirements of the Lottery to its vendor at the time contract negotiations. Again, the Lottery has not taken the steps to alleviate this problem or ensure that the documentation is kept up to date.

- Data processing staff costs due to several factors. Difficulty in finding people with the required skills. These same skills can demand a higher than average salary. Also, once Lottery employees have gained these skills and expertise they become a hot commodity for the private sector.

This is an age old argument that once an individual obtains the experience they will move forward in their career. Once an RPG system comes on site the search for RPG programmers will be even more keen than it is now. The need for Tandem programmers goes only as far as being able to code in COBOL.

- Tandem has an excellent fault-tolerant architecture, but this architecture is exclusive and very expensive. Plus the lottery industry has shown that fault tolerance is not required for back office systems.

With any real-time environment the usage of a fault-tolerant mode is an advantage. It is not needed for all aspects of the systems operations and can be reduced as needed. This means that the duplication of data to separate disks is not always necessary, nor does the lottery do so for all data files.

- There are very few, if any, other states that use this back office system. As a result, there is limited capability to use what other states have developed. This requires the Kansas Lottery to develop all enhancements from scratch and to go through the entire learning process every time.

It is true that no other state uses the BABN package as requested by the Lottery. Even if there were software enhancements taken from another Lottery site the changes would have to be incorporated into our system. Each and every site tailors the software to meet the needs of the user, Lottery software is no different. The development of software seldom starts from scratch, it is more of a process of taking an existing piece of code and modifying it to meet the users needs. The Tandem system, or any other system for that matter, does not require a complete relearning cycle when change need to be made.

MULTIPLE ENVIRONMENT CONSIDERATIONS

1. There are five basic environments for managing the Lottery operations. These include:

- Concurrent system for the Online Games

The Concurrent system has been removed and the ICS software has been written for the Tandem in COBOL.

- Tandem system for the Instant games

The Tandem contains the Online games data with the introduction of ICS also.

- System/36 for some financial systems and some office automation (primarily word processing)

True, plus a second retailer file.

- PCs for financial processing, reporting and word processing

There are not any word processing packages on the PC which are used exclusively, besides the 36.

- Manual systems for financial processing and reporting

These are on the PCs and the 36. The retail coordinator maintains a manual system which could be integrated if a commitment to perform the task(s) was put forth.

2. This multiple system environment has several deficiencies that impact the Kansas lottery.

- a. There is a lack of integration across the systems, especially for financial processing, reporting and analysis.

The Lottery's lack of commitment to solving these problems have been around since the beginning. Until the Lottery commits to changing these policies it will continue to operate as usual. It should be noted that with the introduction of video lottery there will be two different operating system in place regardless and the PCs will remain, since individuals are adverse to change, plus the waste in just disarding the PCs or saying that they can not fill a need.

- b. many manual tasks are required due to the lack of integrated systems. This results in:
 - Potential lack of data integrity and control

True

- Delays in processing and analyzing data

True

- Impacts morale due to pure clerical nature of tasks.

This would always be true.

3. The System/36 has been required due to the lack of a financial package and office automation on the Tandem. The System/36 has the following deficiencies:
 - Poor or non-existent system documentation has led to limited use of the financial packages.

True, but not sure what work has been done to obtain documentation.

- The system is not accessible by all users.

False in that those that need access to the system are provided terminals and logons.

- The system /36 is becoming obsolete and will need to

be replaced in the future.

Each and every computer system becomes obsolete from the manufactures point of view, but it does not mean that the system can no longer fulfill the users needs.

4. While the PCs have brought some automation support to Lottery personnel, the PCs are linked via a LAN. This results in a lack of data integrity and the inability to share data for reporting and analysis.

There not a LANs system on site. The PCs are linked to the System/36 and the Tandem so there is a indirect connection between them. From the security side the two systems can not be connected. Once a new system is acquired security will not allow the connection between the systems, so a means of transferring the data between the systems again comes in to play.

5. There is no integrated office automation support. This impacts productivity:
 - Not all employees have access to word processing or electronic mail functions.

The Director of each department has determined the needs of their staff and terminals have been allocated accordingly. The fact that there is no support lies in the direction that the DP manager takes and outlines for the department. Their is no plan expect to maintain the status quo until the Acclams package is installed.

- Some documents are prepared electronically, but cannot be shared because a common system does not exist.

Documents that are prepared on the IBM are shareable. The system and any system is designed to provide the maximum amount of security to the users. Due to some unethical practices that were common within the Lottery restrictions as to access and readability have been curtailed.

- Many reports and memos must be prepared manually.

I do not know of any system which will prepare a report of memo automatically without some form of human intervention.

FUTURE NEEDS CONSIDERATION

Industry experience has shown that lottery support systems must evolve over time to support the changing needs of the

state lottery. These changes reflect the fact that to increase sales, or maintain sales, new games or changes to the games are required. Some of the potential future needs of the Kansas Lottery may include:

1. Implementing cross redeems capability to increase player satisfaction, which increase sales.

Cross redemptions has been a part of the Lottery's capabilities for over a year and sales have not been greatly effected. Leastways, no one has taken the time to analysis its impact upon the Lottery. I state this from the fact that I have not seen any requests which would lead me to believe otherwise.

2. Implementing online claim payment integration.

This step can not be implemented until the State Treasurer authorizes higher payments with the use of they seal.

3. Implementing consolidated sales/billing system.

No steps have been taken to address this situation.

4. Implementing an automated retailer accounting system through the use of bar code readers at each retailer.

The Lottery has determined that bar code readers were too expensive.

5. Implementing automatic ticket re-ordering and automated settlement processing.

To automate ticket ordering would mean elimination of jobs, which is why this recommendation has not been looked into; Tandem does have the ability to order tickets automatically.

To implement these changes, the support systems must either have these functions available or must be designed to allow enhancements to the basic processing architecture. The current Kansas Instant Game system cannot meet either of these requirements for the following reasons:

1. The system is not designed for automated check printing, cross redeems or changes to inventory control functions.

The current system has the ability to print checks and cross redemption. As for the changes to inventory control it must be noted that all processing with the usage of bar-codes would have to be implemented into to G-TECHs software and

then downloaded to tape for the Lottery to updates their files. The Lottery system and the Acclaims package are not integrated online and instant games packages. The security issues that govern the operations of the different types of games do not allow for their software to reside on the same computer system.

2. The system does not allow the Kansas Lottery to offer more than three games concurrently. Other states, most notably Ohio, offer up to a dozen concurrent games. Their experience has shown that more concurrent games increase overall sales.

The Lottery does have to ability to sell multiple games daily.

3. The coding structure of the system is not logically laid out, and lack of good documentation and personnel resources make changes difficult to implement.

The code, which the auditor of this report did not see, is common to every business which hires people of different cultures and lifestyles. It is true that the previous Lottery staff was negligent in documenting the changes that were made to the system, but this is not to say that there is no documentation at all for the system, because there is documentation which could have been updated as changes were made.

The lack of human resources has always plagued the Lottery since startup. A study of lotteries of comparable size would show that we are under staffed and that with the advent of a new system we will still be under staffed. To maintain and change any system the personnel must be present.

4. Assuming that changes can be made, as more changes are implemented, the odds increase that either the system will fail or unexpected results will occur.

The decision has always been before the Lottery to improve the software and to enhance the system to fit the lottery's needs. All of the afore mentioned issues must be resolved before the lottery can face the next challenge. It might be said that the past and present issues have not been addressed. The statement that unforeseen events may occur is to say that "life holds many surprises, of which we have no control over".

M E M O R A N D U M

To: John Roberts, Director of Administration
From: Jerry Oliver, EDP Security *JO*
Date: December 16, 1991
Subj: Back Office Security

You requested that I prepare a summary which compares the current Kansas back office system with "ACCLAIMS" and with "GAME PLAN". This summary is based on rather limited information about ACCLAIMS and GAME PLAN. Much discussion has taken place about the deficiencies of our current system. It is unlikely that the Legislature will seriously consider authorizing funds to replace our current software and hardware unless the Lottery can show that the request is cost effective, and/or critical to the continued operation of the agency. Lets look at some of the deficiencies of the current Instant Ticket system. (Obviously, there are more deficiencies than those listed below.)

1. BABN software has very weak financial reporting capability.
2. BABN software does not provide full support for more than three active games.
3. BABN software does not perform exempt player validation.
4. BABN software provides limited support for sales reporting.
5. Redundant data is stored on the On-line game system and the instant system.
6. BABN software has slow turn-around for mid and high tier prize payments.
7. Current Instant ticket system has high ongoing costs associated with the application software and the hardware.
8. Employees with a knowledge of the Tandem computer system are difficult to retain.
9. BABN software is poorly designed and documented making changes difficult.

It would appear that none of the deficiencies listed above are critical to the continued operation of the Lottery. They are, however, desirable.

Now lets look at each deficiency and discuss the ability of each of the three systems to resolve the problem.

1. BABN software has very weak financial reporting capability.

BABN software can be modified to provide improved financial reporting capability. (Refer to remarks regarding modifications to the BABN software on the last page) No additional cost will be incurred with this option. A variation of this option is to adapt an existing accounting package. You should already have the cost estimate for this option.

ACCLAIMS appears to provide adequate financial support as delivered. The cost of this option is approximately 1.7 million.

GAME PLAN does not provide adequate financial support as delivered.

2. BABN software does not provide full support for more than three active games.

BABN software can be modified to provide full support for more than three active games. (Refer to remarks regarding modifications to the BABN software on the last page) No additional cost will be incurred with this option.

ACCLAIMS appears to provide full support for at least 99 active games as delivered. The cost of this option is approximately 1.7 million.

GAME PLAN is limited to five active games as delivered.

3. BABN software does not perform exempt player validation.

BABN software can be modified to provide exempt player validation. (Refer to remarks regarding modifications to the BABN software on the last page) No additional cost will be incurred with this option.

ACCLAIMS appears to provide exempt player validation as delivered. The cost of this option is approximately 1.7 million.

GAME PLAN appears to provide this option as delivered. the cost of this option is approximately 1.7 million.

4. BABN software provides limited support for sales reporting.

BABN software can be modified to provide full support for sales reporting. (Refer to remarks regarding modifications to the BABN software on the last page) No additional cost will be incurred with this option.

ACCLAIMS appears to provide full support for at least 99 active games as delivered. The cost of this option is approximately 1.7 million.

GAME PLAN is limited to five active games as delivered.

5. Redundant data is stored on the On-line game system and the instant system.

Neither BABN nor ACCLAIMS nor GAME PLAN resolve this deficiency.

6. BABN software has slow turn-around for mid and high tier prize payments.

BABN software was designed so that mid and high tier prizes are paid by the Kansas Lottery. The turn-around time is a result of that design. Unless a Policy decision is made which requires all retailers have validation capability, this deficiency is of no consequence.

7. Current Instant ticket system has high ongoing costs associated with the application software and the hardware.

BABN software maintenance and development costs will exist no matter which software package the Lottery uses. These costs are already paid for by having a D.P. staff at the Lottery. (Refer to remarks regarding modifications to the BABN software on the last page) No additional cost will be incurred with this option.

BABN software is supported by Tandem hardware. The maintenance costs for a fault tolerant system are high compared to a non fault tolerant system.

ACCLAIMS software is supported by IBM AS400 hardware. The maintenance costs would be considerably less than for the Tandem hardware. Dennis Birozy should be able to tell you how much less. This is probably one of the best reasons the Lottery has for replacing the hardware. It must be remembered, however, that the Lottery is required to have an ICS system for use with Lotto America which is either duplicated or fault tolerant.

GAME PLAN requires fault tolerant hardware similar to the Tandem. Maintenance costs will be similar to the Tandem. This option offers no savings.

8. Employees with a knowledge of the Tandem computer system are difficult to retain.

BABN software is written in COBOL. While there are many people on the job market who can code in COBOL, there are few who are familiar with the Tandem operating system. Training is required for new D.P. employees so that they become familiar with the system. This is, however, true for any system which is unfamiliar to a new employee. The cost incurred with retaining the BABN software and the Tandem hardware are primarily for staff training. Dennis Birozy may have cost estimates for training new D.P. employees.

ACCLAIMS software is written in RPGII and runs on IBM equipment. This option would require retraining the entire D.P. staff on both software and hardware. The training costs for this option could be substantial. Dennis Birozy may have an estimate of the total training cost for ACCLAIMS.

GAME PLAN software is written in COBOL and runs on STRATUS equipment. This option would require training to make effective use of the system software. Little, if any software training would be required. Dennis Birozy may have an estimate of the training costs for Stratus hardware.

9. BABN software is poorly designed and documented making changes difficult.

BABN software is poorly designed and poorly documented. The lack of documentation does not mean that it cannot be properly documented. Once documented, changes can be made effectively and with minimal disruption and no "surprises". This option costs only staff time.

ACCLAIMS appears to be well designed and appears to have adequate documentation as delivered. The cost of this option is approximately 1.7 million.

GAME PLAN appears to be well designed and have adequate documentation as delivered.

SUMMARY

It becomes evident that the deficiencies that I've touched on do not help you very much in justifying the purchase of new computer software and hardware.

It also becomes evident that most of the deficiencies of the existing software can be remedied by modifying the existing software. It is my opinion that, should the decision be made to modify the existing software, the system be reviewed from a design standpoint. That is, lets redesign and document the system so that it works properly rather than add another layer of patches.

JO:jo

cc: Dick Hutcherson

(MEMOJR9)

Office Automation

Note: Phasing of each item subject to change based upon analysis and priority establishment
 N=Not available
 U=Phase not established
 #=Phase

	IBM	TANDEM	PHASE	COMMENTS
Electronic Mail:				
- Sending documents	X	N		THIS CATEGORY IS NOT CURRENTLY PROJECTED TO GO OUT TO TANDEM DUE TO THE LACK OF AVAILABLE SOFTWARE PACKAGES.
- Sending notes	X	N		
- Sending messages	X	N		
Document Preparation:				
- Text processing	X	N		OTHER OPTIONS (SUCH AS KEEPING THE IBM S/36 PC NETWORKS NOT LOOKED TO THE PRODUCTION LOTTERY SYSTEM, ETC) WILL BE CONSIDERED AT SOME FUTURE TIME
- Editing functions	X	N		
- Spell check and synonym aid	X	N		
Document Management:				
- Documents	X	N		
- Folders	X	N		
Calendar Services:				
- Scheduling events	X	N		
- Reminders	X	N		
- Scheduling jobs	X	N		
- Calendar groups	X	N		
Directories and Distribution Lists:				
- System directory	X	N		
- Personal directories	X	N		
- Distribution lists	X	N		
Communications:				
- Data exchange with users of another AS/400, S/38, S/36 or PC's	X	N		
Application Programming Interfaces:				
Administration Support:				
- Directories	X	N		
- Calendars	X	N		
- Distribution Lists	X	N		

OFFICE AUTOMATION

Electronic Mail

Office Vision/400 Electronic Mail allows users to send, receive, forward, reply to, distribute, file and print a variety of documents and notes. Messages (up to 256 characters) can also be sent, received, forwarded and replied to. A log is kept of all mail sent and received and can be printed if necessary.

Document Preparation

The text processing and editing functions of Office Vision/400 allow users to increase productivity while producing high quality professional-looking documents. Users can even check the reading level of the vocabulary used in a document to verify its readability. Synonym and spell-check aids are also available.

Document Management

Office Vision/400 users primarily work with two type of objects, documents and folders. Documents are generally stored in folders allowing documents relating together to be stored and accessed together. Access to a folder or document is controlled by the creator of the object. To facilitate retrieval, objects can be selected from a list using either the "Work with Folders" function or the "Work With Document List" function.

Calendar Services

The four main functions provided with the calendaring services are event scheduling, reminders, job scheduling, and group calendar maintenance. An event is an item such as a appointment or a meeting. The calendaring services allow the user to keep track of events that have been scheduled. The calendaring services also allow the user to add a reminder to the calendar that will send the user a message at a set date and time. AS/400 jobs can also be scheduled to execute at a specified date and time using the calendaring functions. This allows jobs to be run without operator intervention. Finally the calendaring services allow users to set up group calendars that enable them to schedule events on multiple calendars with one command. This ensures that the event is scheduled for each user in the group at the specified time.

Directories and Distribution Lists

Office Vision/400 supports a system directory, multiple personal directories and multiple distribution lists. The system Directory is a directory of information on all users enrolled in Office Vision/400. Personal directories are defined by each user to store any information they feel will be useful to them (i.e., a phone directory).

Distribution lists are objects defined by users to simplify the distribution of electronic mail to multiple users.

Communication

Office Vision/400 allows users to share and exchange data with users on another AS/400, System/38, or System/36. This allows users to send mail to other sites. Office Vision documents can also be exchanged with Personal Computers. This capability will allow users of Personal Computers to obtain data from the AS/400 and load it into a variety of Personal Computer applications (i.e., spreadsheets).

Application Programming Interfaces

OfficeVision/400 provides the user the capability to merge data from the AS/400 integrated database with a shell document they have created to produce a finished document (i.e., a form letter). This capability can also be used by application programmers to access documents from within the application programs they are developing.

Administration Support

OfficeVision/400 provides support to the Office Vision Administrator to aid in maintaining enrollment, documents, directories, calendars, and distribution lists.

Other Facilities

Note: Phasing of each item upon subject to change to analysis and priority establishment
 N=Not available
 U=Phase not established
 #=Phase

	IBM	TANDEM	PHASE	COMMENTS
Table Maintenance Facility: - On-line maintenance of static data - On-line maintenance of variable data - Maintenance reporting - Table File Maintenance Audit Trail - Table File List	X	X	ALL	NOTE 1: THESE ITEMS WILL BE INCORPORATED INTO ALL PHASES:
Screen Print Facilities: - Ability to print data from the screen via simple operation	X	X	ALL	NOTE 2: PC SUPPORT WILL BE MADE AVAILABLE IN AN EXTREMELY TIGHTLY CONTROLLED WAY, SIMILAR TO OUR CURRENT METHOD,
Restart and Recovery Processing: - Journalization of on-line transactions - Automated transaction backout and reapplication. - Automatic starting & stopping of file journalling	X	X	ALL	
Microcomputer Up-Load and Down-Load Facilities: - PC Support	X	X	SEE NOTE 2	
Message Broadcast Facilities: - Messages to appear in a user designated area of the screen - Extended message text available	X	X	ALL	
Help Text Facility: - On-line help text for all on-line screens - Help text able to be maintained - Extended help text shows possible values	X	X	ALL	

OTHER FACILITIES

ACCLAIMS contains several additional facilities that, coupled with features of the AS/400, provide additional flexibility, control, ease of use, and automation for its users.

Table Maintenance Facility

Many of the operating parameters on ACCLAIMS are table driven, providing the maximum flexibility for tailoring the software to meet individual needs. ACCLAIMS' table maintenance provides for easy maintenance to set up and change these values.

When values are changed, ACCLAIMS keeps a clear audit trail of the changed parameters including information such as the date and time the change was made, the value being changed, and the name of the person making the change. Reporting on the audit trail is also available.

ACCLAIMS also provides listings of tables and their parameter values for the purpose of internal audits and reviews.

Restart and Recovery Processing

ACCLAIMS utilizes the AS/400's journaling and commitment control for backup and recovery on a transaction basis. This ensures database synchronization will automatically backout a database update if a problem is encountered.

The use of journaling is transparent to the end user, as journaling of database files is automatically started and stopped each processing day.

Message Broadcasting and Help Text

ACCLAIMS contains nearly 3,000 user messages to facilitate and direct users as they use the system. Most of the messages contain extended text to further explain the purpose of the message and to suggest the required action if an error condition has been required.

Each on-line screen also has help text to explain the purpose of the screen and how it is to be used. Extended help text is provided to display the set of possible values for fields that will contain table driven parameters. There is also a help text maintenance facility that allows help text to be added or changed as required.

SYSTEM SECURITY

Note: Phasing of each item subject to change upon analysis and prioritization
 N=Not available
 U=Phase not established
 #=Phase

	IBM	TANDY	PHASE	COMMENTS
Unauthorized computer access attempts logged to a security console by time, date and address	X		4	SPECIFIC SECURITY AREAS WILL BE QUANTIFIED, PRIORITIZED, AND IMPLEMENTED DURING APPROPRIATE PHASES.
The software contains the following features to aide in determining out-of-balance situations:				
- Input/output controls	X			
- User controls	X			
- Data field, database controls	X			
- Access controls	X			
- Recovery/restart	X			
- File maintenance	X			
Multiple Security:				
- User defined security - user profiles	X			
- System defined security	X			
- Terminal access security	X			
- Subsystem access security	X			
- Database file security	X			

SYSTEM SECURITY

ACCLAIMS runs under level three security on the AS/400, therefore allowing the use of individual object authority to restrict unauthorized access. All data files are kept on authority lists to which individual user groups are given authority. User profiles are assigned different user groups based on data needs and security clearance. This prevents unauthorized users from accessing files containing sensitive data. Sensitive control language commands and programs also have restricted access via authority lists. Unauthorized attempts to access database files are logged to a security log by time, date and user I.D.

The system also supports access path journaling to provide faster recovery of access paths in case of an abnormal system termination. If an access path is being maintained when the system abnormally terminates, the access path is placed in an invalid state. Journaling of access paths allows the system to quickly make the access path operational instead of requiring a rebuild of the entire access path. Should a data file object be damaged due to hardware problems, ACCLAIMS supports "roll-forward" recovery by journaling all data file transactions to journal files. After the damaged data file is located, it can be restored to a synch point and have journal transactions applied.

Commitment Control ensures that a multiple data base change transaction is completed successfully or backed out. An application programmer can easily provide for recovery at a transaction boundary. Commitment Control requires journaling. All statements allow for application control of rollback or commitment.

Save/Restore functions provide the capability to copy objects off and back onto the system for backup and recovery purposes. Any tape or diskette device as well as an on-line save file can be used for saving objects or members. Use of a save file allows an unattended offshift save with a subsequent copy to media when the system operator is available. Various options are provided to save by library or objects or members which were previously saved including single objects from a group of objects saved at one time or a single member from a multiple-member file. In addition, there is an option to save all auxiliary storage without regard to library or object contents.

Tel-Marketing Order Processing

Note: Phasing of each item subject to change based upon analysis and priority, establishment
 N= Not available
 U=Phase not established
 #=Phase

	IBM	TANDEM	PHASE	COMMENTS
On-line Facilities:				ALL OF THESE ITEMS ARE POSSIBLE, BUT INCLUSION INTO A TANDEM PHASE WILL BE CONTINGENT UPON ANALYSIS OF NEED AND PRIORITIZATION.
- System prompted user driven telephone marketing order processing	X			
- Integrated Point of Sale merchandise ordering	X			
- Summary communication to retailer of high-tier payments information	X			
- Weekly retailer issue/settlement statistics	X			
- Communication with marketing representatives via reporting facility	X			
- Delivery messages communicated to courier via bills of lading	X			
- Order maintenance and inquiry	X			
- Pack control status maintenance	X			
- Retailer auto-reorder parameter maintenance per game	X			
- Auto-reorder parameter establishment using historical reference or percentage algorithm	X			
- System warnings for exception situations	X			
- Redwood auto-dialer	X			
- Initial allocations analysis	X			- System alerts users to extra large orders, excessive onhand quantities, etc.
User Controlled:				
- Tel-marketing customer contact sequence driven by user based parameters	X			
- Parameter driven order processing/pack allocation	X			- Central/Non-central warehouses, courier/market rep delivery and multiple/single games per bill of lading are all supported by order processing
Automated Interfacing:				
- Ticket stock inventory maintenance	X			
- Retailer ticket stock allocation maintenance	X			
- Automatic generation of orders based on auto-reorder parameters and retailer inventory levels	X			
- Automatic initial allocation of a pre-determined number of tickets to all lottery retailers	X			

TEL-MARKETING ORDER PROCESSING

The Tel-Marketing subsystem provides operators with the on-line capability to efficiently process retailer orders while providing a detailed level of customer service. It is a flexible, parameter driven package that utilizes bar coding technologies. Among the various lottery configurations supported by ACCLAIMS are: 1) central/non-central warehouse location(s), 2) courier/market representative pack delivery or 3) multiple or single games per bill of lading. The primary tel-marketing application guides the user through his/her daily tasks by employing the autocall feature, a component that automatically prompts the operator with the next retailer account to be processed for that day and time. Orders are maintainable until nightly processing, in which they are converted into bar coded bills of lading. Each retailer can then confirm delivery of all packs contained on one bill of lading by simply scanning the bar code. The retailer can also activate and settle packs by scanning the appropriate bar coded cards contained within each pack. ACCLAIMS will subsequently bill the retailer for each settled pack.

Tel-Marketing Order Entry

The Tel-Marketing Order Entry application has been designed to accommodate the need for operators to process orders quickly while promptly responding to account inquiries. Therefore, enhanced customer service is the direct result of placing frequently requested information on the same screen on which the order entry function is performed. Within each retailer account, ACCLAIMS provides systematic prompts to enter an order quantity and/or supplies for each active game. Messages to be communicated to the delivery courier or marketing representative can be transmitted through this screen to various reporting facilities. Operators can relay numerous pieces of account information to the retailer, including: 1) weekly issue/settlement statistics, 2) summarized high-tier payment information, 3) initial allocation quantity, 4) pending EFT sweep amount and date, 5) call/visit logistics, 6) invoice print day, 7) billing code, 8) net tickets sold, and 9) promotional involvement.

Automatic Reorder

A retailer can forego the entire Tel-Marketing Order Entry process by requesting to be classified as an auto-reorder retailer. Each auto-reorder retailer is assigned values to the parameters necessary in the execution of the auto-reorder process (i.e. maximum on hand quantity and reorder point). These parameters are maintainable for a specific retailer/game combination through an on-line application which also provides the retailer's previous order information and current pack inventory for the game inquired upon. Upon user request, the application will automatically assign the auto-reorder parameters using a predetermined algorithm based on historical information or a percentage of initial allocation quantity. Orders will be generated in nightly processing for each game in which a retailer's inventory level has met or fallen below the reorder

point quantity. If desired, the automatic reordering process can be completely overridden by placing an order through the traditional Tel-marketing Order Entry function.

Initial Allocations

Built-in flexibility allows the initial allocation of packs to occur in one of two ways: 1) a retailer specified quantity can be entered through the Tel-Marketing Order Entry option which will invoke the initial allocation autocall feature to display all retailers for a specific tel-marketing operator regardless of the retailer's specified call day, or 2) a predetermined number of tickets will be distributed across all lottery retailers in a nightly batch process. The latter option provides the lottery with the ability to perform unlimited mock runs of the initial allocation process in order to determine the necessary combination of values to achieve the desired result of pack distribution. It is important to note that each retailer will receive an order quantity proportionate to his needs due to the consideration of several factors (i.e. traffic count, packs settled and sales history) in the calculation of the ideal order quantity.

Integrated Phone System

Note: Phasing of this item subject to change based upon analysis and priority of establishment
 N=Not available
 U=Phase not established
 #=Phase

	IBM	TANDEM	PHASE	COMMENTS
On-line Facilities: - Provides 100% on-line, real time validation for all tickets <ul style="list-style-type: none"> • Mid tier • Low tier - Supports automated ticket handling for retailers <ul style="list-style-type: none"> • Pack activation • Pack settlement • Order confirmation 	X	N		ALL ON-LINE FACILITIES ARE CURRENTLY NOT PLANNED, BUT MAY BE POSSIBLE TO INCLUDE IN FUTURE PHASES.
Automated Interfacing and Processing: - Can interface to any on-line system - Supports interfaces to several voice response units <ul style="list-style-type: none"> • AGT • IBM • Syntellect 	X X X	N N N		
- Supports barcode data input - Supports touch tone phone data input <ul style="list-style-type: none"> • Winning numbers • General information for retailers • Retailer account balance inquiries 	X X	N N		
Reporting: - Provides reporting to retailer's stores upon request	X		4	

INTEGRATED PHONE SYSTEM

ACCLAIMS integration with the lottery's phone systems allows for seamless integration to provide retailers automated ticket handling features. Several automation functions can be provided to retailers via inexpensive barcode terminals, on-line vendor's terminals, or by simply sending touch tone phone tones through the retailer's existing telephones.

Both barcode terminals and on-line terminals can have menus and/or scripts to guide retailers through operation of each of the functions. Should the lottery choose to utilize retailers' existing telephones, a voice response unit can be used to guide the retailer through the different functions available. This takes place as a recorded voice script with which the retailer interacts. Data is sent to the voice response unit via touch tone phone tones.

Listed below are some of the optional automated features available for retailer automation:

Pack Confirmation

Upon receipt of a ticket delivery the lottery can confirm receipt of the delivery when the retailer reads a barcode located on the bill of lading.

Pack Activation

Before beginning to sell tickets from a pack to the public, the retailer must first activate the pack by reading a barcode located within the pack. The lottery can limit its retailers' liability for stolen packs by not making them available for sale or claim until the retailer reads an activation barcode located within the pack.

Pack Settlement

After selling all of the tickets within a pack, the lottery can create a receivable transaction for the retailer after the retailer reads a barcoded settlement card.

Mid Tier Validations

Mid tier tickets can be validated on-line through their terminals. The retailer receives an authorization number authorizing the payment of each valid mid tier claim.

Low Tier Validations

ACCLAIMS supports 100% on-line validation of low tier tickets. While validating a low tier ticket, retailers are provided with real time feedback as to whether the ticket is a valid winner and should be paid.

Reporting

Retailers can receive several reports upon request from the lottery's central computer. An example of such a report is a daily summary of activity requestable by date that shows all activity for a retailer for any given day.

Inventory Control

Note: Phasing of each item subject to change upon analysis and priority establishment
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 #=Phase

	IBM	TANDEM	PHASE	COMMENTS
On-line Facilities: - Ticket stock transfers - Pack and ticket maintenance - Pack and ticket inquiry - Split pack maintenance - Stock status or ticket inquiry - Immediate orders	X	X	LI	ALL ITEMS ARE PLANNED TO BE INCLUDED BUT PHASING DEPENDS ON ANALYSIS OF EACH ITEM
User Controlled: - Number and categories of ticket stock statuses - Number, name and location of warehouse - Safety stock levels for warehouse - Number of packs on bill of lading	X	X		
Automated Interfacing: - Ticket stock status maintenance - Claims system validation of ticket status - Tel-marketing system for pack reservation - Order processing system for issues and returns - Pack activation code maintenance	X	X		
System Balancing and Control: - Maintenance totals reporting - Automated balancing of inventory by status	X	X		
Reporting: - Pack tracking - Pack reporting by status - Pack reporting by location - Picking summary - Picking detail for warehouse personnel - Immediate bill of lading	X	X		

INVENTORY CONTROL

Management of pack inventory requires minimal effort due to the detailed level of tracking and reporting that is provided by ACCLAIMS. Inventory status can be retrieved on-line for various levels of detail. Depending upon user inquiry, inventory status can either be summarized in the form of a warehouse or retailer snapshot, or detailed in an audit trail of the physical status of an individual pack. Packs have two types of statuses that are tracked: 1) physical status and 2) retailer pack control status. The following are examples of common status codes:

PHYSICAL STATUS CODE

- 1 = Unconsigned
- 2 = Full Return
- 3 = Partial Return
- 4 = Reject
- 5 = Lottery Void
- 6 = Manufacturing Void
- 7 = In Transit
- 8 = Trunk Stock
- 9 = Retailer
- 10 = Stolen

RETAILER PACK CONTROL STATUS CODES

- A = Activated
- B = Billed
- D = Delivered
- I = In Transit
- S = Settled

Retailer Pack Control Status Inquiry/Maintenance

Retailers can update the control status of their pack inventory through the execution of daily pack transactions (i.e. delivery confirmations, activation, etc.) using the bar code reader. For those retailers not utilizing bar code technology, the same transactions can be performed by customer support representatives at lottery headquarters through the on-line Pack Control Maintenance application. Additionally, this application displays a detailed picture of current retailer inventory levels for each control status within each game, enabling the user to quickly answer account inquiries.

Physical Pack Status Inquiry/Maintenance

On-line maintenance of physical pack status is also possible through the Pack/Ticket Status Inquiry application. The physical status can be modified for either a single ticket or a range of tickets. An audit trail is automatically generated listing pack status modifications that did not occur as a result of normal transaction processing. Rules depicting valid status modifications are stored in ACCLAIMS and are easily modified to meet Lottery specifications.

Physical pack/ticket statuses are available on-line through the Pack/Ticket Status Inquiry application. This application displays the current status of all tickets within a

given pack for a specified game. Current and historic location data is displayed for all tickets within a pack, beginning with the warehouse that initially received the pack from the ticket vendor.

Warehouse inventory levels are automatically maintained through inventory balance control records which portray the flow of tickets between different physical statuses for each game within each warehouse. This information is accessible on-line through the Inventory Balance Control Inquiry application which displays the net affect of all inventory related transactions that have occurred during the current day. In addition, nightly processing produces a report summarizing daily inventory activity for each game/warehouse combination. Finally, the user also has the option to request an immediate pack ticket listing sorted by pack status or location. The listing can be customized to report upon current and/or historical information at the detail or summary level.

Automated Interfaces to Inventory Control

Several applications throughout daily and nightly processing update inventory status levels. However, at least three particular applications especially effect the status of pack inventory: 1) nightly batch order processing, 2) immediate orders and 3) pack transfers.

Nightly order processing automatically reserves and assigns packs to orders created by tel-marketing. Reserved packs are updated from the status of unconsigned to in-transit, marking them as no longer available for consignment. Both a detailed and summarized picking list is generated to assist warehouse personnel in expediting the orders. Depending on the logistics of the lottery (central/non-central warehouse location(s)) pack reservations are made at the appropriate warehouse according to retailer location.

ACCLAIMS allows retailers to place orders in person (usually at a regional lottery office) and receive packs on demand through the on-line Immediate Orders application. This function immediately updates pack and inventory statuses (from unconsigned to in-transit) and prints a bill of lading detailing retailer information, game, pack, ticket number, quantity, and amount of order.

Finally, the ability to immediately transfer a range of packs from one location to another is available through the Pack Transfer Request screen. Valid transfers can occur between a warehouse and a marketing representative (if the marketing representatives are allowed to carry stock, as determined by the lottery). Inventory status levels are updated simultaneous to the transfer process.

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ISSUES & RETURNS

	IBM	TANDEM	PHASE	COMMENTS
On-line Facilities:				
- Issue verification of ticket deliveries	X			MOST LIKELY PHASE 1 or 2
- Inventory update of delivered tickets (part of ticket control)	X			
- Return ticket validation and processing	X			
- Collection of retailer and marketing representative statistics	X			
- Outstanding/unverified order inquiry	X			
- Reconciled order inquiry	X			
- Ticket issue option at time of pack settlement	X			
Automated Interfacing:				
- Accounts receivable	X			
- Warehouse and retailer ticket inventory adjustment	X			
System Balancing and Control:				
- Exception reporting of retailer accounts not reconciled	X			
- Summarized daily activity by region	X			
Financial Reporting System Interface:				
- Summarized accounting reports	X			
Reporting:				
- Summarized verified retailer accounts	X			
- Unverified retailer accounts	X			
- Returned packs summary	X			
- Returns adjustment detail and control report	X			

ISSUES AND RETURNS

Issues Processing

The Issues and Returns subsystem interfaces with the order processing, inventory control and accounts receivable subsystems to maintain retailer accounts as necessary. Issue transactions occur in nightly processing for each pack allocated to an order that has been verified. Orders are verified through an on-line module called Issues Verification which allows the user to maintain an order even after pack allocation and bill of lading creation have occurred. The lottery has the option to either direct ACCLAIMS to automatically verify orders after a set period of time, or to use the on-line verification application to verify each order on an individual basis, as previously discussed. On-line verification is particularly useful in an environment in which the marketing representatives are performing deliveries and are able to access ACCLAIMS to make order adjustments up to the point of delivery. Issue transactions occurring in nightly processing will update all packs associated with an order from the status of "in-transit" to "retailer". Retailer and marketing representative statistics are also updated to provide the user with valuable information regarding tickets sold, issued, returned, rejected, etc.

Returns Processing

Return transactions for full and partial packs can be fully validated and created on-line through the Returns Verification screen. This application also provides for the maintenance of an existing return transaction until nightly processing begins. Return transactions entered with validation errors can be suspended until the correct values are entered. Nightly processing credits retailers for returned tickets and makes the necessary inventory adjustments to the receiving warehouse. In addition, full pack returns are automatically returned to "unconsigned" status making those packs available for future orders.

Issues/Returns Inquiry and Adjustments

Summarized information about issue and return transactions not yet processed by batch processing can be viewed on-line through the Issue/Return Summary Inquiry. The user can limit the inquiry to display only unverified (outstanding) orders, verified (reconciled) orders, or a combination of both. Return transactions are always verified and will be displayed as such. ACCLAIMS provides the user with a safety feature which allows both issue and return transaction adjustments at any point in time. If the transaction has not yet been processed in nightly batch, the user can access and adjust the transaction through the application upon which it was entered. However, if the transaction has been posted in nightly processing, the adjustments can be made through the Issues/Returns Adjustments screen.

CLAIMS

Note: Phasing of each item subject to change and upon analysis and prior establishment

N=Not available

U=Phase not established

#=Phase

	IBM	TANDEM	PHASE	COMMENTS	
On-line Facilities:					
- Entry, validation and payment of walk-in or mail-in low, mid, high-tier, and on-line claims	X	U		<i>PHASING OPEN - TO BE DECIDED</i>	
- Immediate check printing of low-tier, high-tier and on-line claims	X	N			
- Collection (through setoff processing) of other agency liabilities	X	N			
- Collection of player demographics	X	U			
- Validation of ticket, VIRN, setoff condition and employee check	X	U			
- Update of controlled winning ticket/VIRN lists	X	U			
- Security bypass processing	X	U			
- Claimant name inquiry/maintenance	X	U			
- Claimant cross-referencing capability/checking	X	U			
- Claim number inquiry.	X	U			
- Check number inquiry and reset maintenance	X	U			
- Ticket number inquiry	X	U			
- Check void and reissue capabilities	X	U			
Automated Interface:					
- Automated G/L entries at time of claim	X	U			
- Interface with on-line vendor	X	U			
System Balancing and Control:					
- Balancing for the collection of low-tier lottery redeems	X	U			
- Day-to-day reconciliation of unpaid and paid winners	X	U			
- Controlled loading of setoff data	X	N			
- Claimant maintenance reporting	X	U			
- Validation file security / maintenance	X	U			
- Employee security / maintenance	X	U			
Reporting:					
- Immediate claim form creation	X	U			
- Daily check register and winners list	X	U			
- Federal W2g tape and reporting	X	U			
- Option to print W2g at time of claim.	X	U			
Other:					
- Participating agencies setoff data loading	X	N			
- Loading of validation file from Instant Ticket Vendor.	X	U			
- Both GLEPS and NON-GLEPS	X	U			
- Low tier bar-coding	X	N			

CLAIMS SUBSYSTEM

The Claims subsystem processes all player claims and provides on-line, real-time validation and check printing. It processes all claims with one screen depending on the type of claim. This includes "low-tier claims" (tickets usually redeemed by the retailer), "high tier claims" (tickets usually redeemed above the retailer's redemption limit and normally redeemed by the Lottery), and "on-line claims" (tickets associated with the on-line game, such as Lotto). The system supports mail-in claims by providing an automatic audit trail and claims form.

The Claims subsystem's on-line inquiry facilities are provided to allow inquiries by claimant name, claim number and check number. This greatly assists administrative personnel, reduces inquiry time and reduces paperwork.

The subsystem also automatically checks and reports any attempt to process a claim by an employee, member of an employee household or any other restricted member. The subsystem also captures miscellaneous demographic and marketing research information at the time of validation.

Mid Tier Claims and Ticket Validation

The system is already designed and programmed to adapt to the usage of bar code scanning devices for ticket number entry.

Andersen Consulting has also developed modules to interface with voice response units to allow retailer validations of mid tier prizes.

This system interface has also been used by retailers in Virginia to validate deliveries of ticket orders via United Parcel Services (UPS). This same approach may be beneficial for confirming ticket order deliveries made via a common courier such as UPS or the marketing representatives. It may also be used by retailers to inquire into their EFT sweep amounts or obtain general information.

Winner Payment, Checks and W2G Processing Forms

If all security checks are validated, the system automatically withholds state and federal taxes based on a withholding percentage or amount established by the Lottery at system installation time. The system will handle the processing of taxes differently based on the user parameters for U.S. Citizens, residents, and of non-resident aliens. When a state debt setoff program is enacted, the system will automatically withhold any amounts owed by the claimant to the state. A W2G form may be provided at the time of prize payment. Furthermore, the system will produce withholding reports, annual

statements and Federal W2G tapes. All winning data is kept for the year and can be reported on in summary format.

Check Voiding Procedures

A check can be voided on-line, real-time, changing that check's status to "voided". This on-line transaction is secured from normal operator usage. Security would subsequently be notified should a voided check be cashed in the future.

Note: Phasing of each item subject to change based upon analysis a priority establishment
 N=Not available
 U=Phase not established
 #=Phase

RETAILER BILLING

	IBM	TAPDENC	PHASE	COMMENTS
On-line Facilities:				
- Inquiry of retailer's bill statement	X			
- Inquiry of retailer's EFT sweep amount	X			
- Maintenance of retailer billing processing and account information	X			
- Maintenance of EFT bank data	X			
User Controlled:				
- Billing parameters maintenance	X			
- Minimum credit and debit balance exclusions from billing processing	X			
- Custom retailer message	X			
- Maintenance of requested winner statistics for retailer bill statements	X			
- Billing cycle maintenance	X			
- Print parameters for billing statements	X			
- Purge request criteria for billing statements	X			
- EFT billing parameters, EFT sweep date	X			
Automated Interfacing and Processing:				
- Chain store activity transfers to headquarter's accounts	X			
- Electronic Funds Transfer System	X			
System Balancing and Control:				
- Automated bill balancing	X			
- Control amount reporting	X			
Financial Reporting Interface:				
- Summarized accounting reports	X			
- Billing extract	X			
- Billing processing	X			
- Billing generation	X			
Reporting:				
- Retailer credit balance exception reporting	X			
- Headquarter summary bill statements and chain store detailed bill statements	X			
- Central, remote and multiple site printing / reprinting of statements	X			
- Automatic statement reprinting by account type (Key account, HQ account, Independent retailer, chain, etc)	X			
- Statement messages	X			
- Bill process balancing and reporting	X			

RETAILER BILLING

The Billing Subsystem includes user-requested, parameter-driven batch run to produce all retailer billing statements, on a weekly, bimonthly, monthly or other cycle schedule.

This system calculates retailer account activity and formats bill statements. By assigning retailers a bill cycle and bill day value, the system allows for cycle billing which processes only those retailers whose billing parameters meet the system parameters controlling the billing run. If desired, this flexibility allows for the breaking out of bill processing into a percentage of total retailers being processed each night rather than concentrating all retailers into a single weekly or bimonthly run. However, the retailer billing parameters can be overridden in order to achieve a single billing run.

The system also allows for five types of retailer bill processing (EFT Checking, EFT Savings, C.O.D., Not Billed, and Alternate Billing). Alternate billing automatically applies chain store balances to the headquarter billing account. Print parameters and message tables allow the user to customize the format of billing statements.

Reporting functions provide the user with bill balancing reports and summaries of headquarter, chain store, and independent retailer billing activity. This system also supports on-line viewing of retailer statements and on-line inquiry of retailer billing information.

Accounts Receivable

Note: Phasing of each item subject to change analysis and prior establishment
 N=Not available
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 #=Phase

	IBM	TANDEM	PHASE	COMMENTS	
On-line Facilities:					
- Credit memo, debit memo, payment entry, validation and processing	X			Will DEPEND ON WHETHER PACKAGE IS PURCHASED	
- Detailed accounts receivable activity by retailer	X				
- Automated updating of individual and chain headquarters	X				
- Balance verification of retailer activity to retailer balance	X				
- Accounts receivable suspense processing	X				
- Maintenance of account activity for active, pending and cancelled retailers	X				
- Maintenance of retailer name and address	X				
- Retailer applicant processing	X				
User Controlled:					
- System accounting parameters maint	X				
- Interfacing systems options	X				
Automated Interfacing and Processing:					
- Instant ticket issues and returns		X			
- On-line ticket sales and cancels		X			
- Prize redemption credits		X			
- Electronic funds transfer transactions		X			
- Third party payment receipts		X			
- External system charges		X			
System Balancing and Control:					
- Automated day-to-day reconciliation of subsystem balances with accounts receivable activity		X			
Reporting:					
- Posted credit memo, debit memo and EFT payment listing		X			
- Daily retailer transaction processing and balancing reports		X			
- Retailer activity report		X			

ACCOUNTS RECEIVABLE

The Accounts Receivable subsystem offers automated and manual maintenance of retailer and headquarter account activity. Sales and returns for instant tickets as well as sales and cancels for on-line tickets are automatically posted to a retailer's account. Winning tickets redeemed by retailers are automatically credited to the redeeming retailer's account. Payments received through EFT sweeps are also automatically applied to a retailer's account. Adjustments can be applied to a retailer's account through the use of credit memo, debit memo and payment entry processing. On-line facilities allow for up-to-date inquiry of a retailer's account balance and a detailed list of all account activity. Also, on-line reporting options allow the user to easily create customized reports displaying a variety of accounts receivable information.

To assist the accounting/finance department in balancing and reporting of retailer activity, the following accounting reports are provided:

- Accounts Receivable Transaction Processing Report - This report lists all the transactions processed by the Accounts Receivable subsystem. It includes both detail and control totals.
- Accounts Receivable Activity Report (on Request) - This report allows the user to select different options and ranges to report on accounts receivable activity. For example, a user may want a report for a particular retailer (or range of retailers) for certain transaction dates, and only wants to see certain types of transactions. This is possible with this on-line request report.
- Accounts Receivable Bill Balancing Report - This report provides exception messages for each retailer and provides control totals for the billing process.
- Post Receipts Report - This is a balancing report that shows control totals and suspended amounts for different types of transactions.

ELECTRONIC FUNDS TRANSFER

Note: Phasing of each item subject to change based upon analysis and priority established
 N=Not available
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 #=Phase

	I&M	TANDEM PHASE	COMMENTS
On-line Facilities:			
- EFT file maintenance and inquiry	X		
- Maintenance of sweep amounts and accounts	X		
- Maintenance of transaction codes	X		
- Maintenance of retailer bank account data	X		
- Prenoting of individual retailers	X		
User Controlled:			
- Selection of sweep dates and other related parameters for Electronic Funds Transfer (EFT)	X		
Automated Interfacing and Processing:			
- EFT payment transactions automatically posted to retailer accounts	X		
- Net sweep amount automatically posted to general ledger	X		
Reports:			
- Detail sweep information by retailer and control totals by sweep date	X		
- EFT maintenance audit report	X		
- EFT processing audit report	X		
- Prenote processing report	X		

ELECTRONIC FUNDS TRANSFER

The Electronic Funds Transfer subsystem allows for prenoting and creation of an EFT. The tape to be processed by the Lottery's bank as well as a corresponding EFT report. The tape can be formatted by the system any time after bill processing has completed and prior to the sweep data formatted by the system on the EFT tape records. The user is allowed to manually override the sweep amount for any retailer up until the tape is cut. All accounts receivable transactions will automatically be generated and posted to the corresponding retailer's accounts at the time the tape is formatted and summary totals will be posted to the general ledger. A report will display all retailer balances formatted on the tape and a tape total for control purposes.

The subsystem also allows for reconciliation of the lottery claims bank-processed (cashed) checks with the system database of outstanding checks. For any Non-Sufficient Funds (NSF) occurrences, an NSF Report can be created that will assist the accounting/finance department in collecting any unpaid amounts by the retailers.

Financial Management

Note: Phasing of each item subject to change based upon analysis and priority establishment.
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 #=Phase

	IB/IL	TRANSITION PHASE	COMMENTS
On-line Facilities:		4	PRIORITY SUBJECT TO ANALYSIS & ESTABLISHMENT
- Standard journal entry and processing	X		
- Statistical journal entry and processing	X		
- Recurring journal entry and processing	X		
- Automated reversing journal entry and processing	X		
- Journal entry inquiry	X		
- Suspension and maintenance of rejected transactions	X		
- Account/center master maintenance	X		
- Account transaction inquiry	X		
- Account balance inquiry/maintenance	X		
- Budget preparation and maintenance	X		
- Statistical budgeting	X		
- Balance sheet design	X		
User Controlled:			
- Post journal entries	X		
- Period closings	X		
- Financial report formats	X		
- Responsibility report formats	X		
- Coding block structure	X		
- Allocation setup and processing	X		
- Historical data maintenance	X		
Automated Interfacing and Processing:			
- Instant ticket sales and returns	X		
- On-line ticket sales and cancels	X		
- Prize fund liability calculations	X		
- Prize fund payments	X		
- State sales tax liability calculations	X		
- State and Federal tax withholding liability calculations	X		
- State and Federal tax withholding payments	X		
- Collections of accounts receivable	X		
- Accounts receivable post receipts processing	X		
- Other subsystems financial activity	X		

Financial Management (cont.)

Note: Phasing of each item subject to change based upon analysis priority established.
 N=Not available
 U=Phase not established
 #=Phase

	IBM	TANDEM	PHASE	COMMENTS
System Balancing and Controls:				
- Subsystem reconciliation reporting	X			
- System maintenance reporting	X			
Reporting:				
- General ledger	X			
- Balance sheet(s)	X			
- Income statement(s)	X			
- Transaction reports	X			
- Responsibility reports	X			
- Budget reports	X			
- Analysis reports	X			

FINANCIAL MANAGEMENT

The Financial Management subsystem provides a unique and flexible accounting system to adhere to state reporting requirements and to manage the daily operations.

This system offers automated interfacing and processing from the Claims Inventory Control and Accounts Receivable subsystems to the General Ledger system. For each financial transaction processed by the system, an accounting report is generated. Also, within the General Ledger system, various on-line facilities allow for account setup, report setup and budget preparation. The entire journal entry process is table-driven, and selection of the multiple debits and credits for single transactions is user-driven. For example, the debits to Accounts Receivable, low tier prize expense commission expense, high tier prize expense and associated credits to Sales, and high tier prize liability are automatically generated from the issuance of one pack of tickets.

User controlled facilities include the closing of fiscal periods as well as the customization of the coding block structure and financial report design.

Reporting facilities feature standard reports available in the system exclusive of any custom financial, revenue or expense reports. All reports can be generated upon request. Consolidated financials can be generated on a monthly, quarterly, and yearly basis. A list of those reports will be provided upon request.

A complete chart of accounts is provided with the system, tailored specifically to the Illinois State Lottery's and State Auditor's requirements.

Regional Analysis

Note: Phasing of each item sub to change based upon analysis priority established
 N=Not available
 U=Phase not established
 #=Phase

	IBM	TANDEM PHASE	COMMENTS
On-line Facilities:		U	
- Regional operations inquiry, by game, for daily and game-to-date statistics on returns processed	X		
- Regional operations inquiry, by game, for daily and game-to-date walk in sales	X		
- Regional operations inquiry, by game, for daily and game-to-date claims processed and paid	X		
- Inquiry by game, for all regions, for daily and game-to-date analysis of returns, walk in sales, and claims processed and paid	X		

REGIONAL ANALYSIS

The Regional Analysis system assists Lottery personnel to determine what promotions to use in order to monitor returns. This system also assists Lottery personnel to evaluate and compare regional performance. Regional site statistics, provided on a daily basis, include:

- Walk in Sales
- Returns
- Claims Processed
- Claims Paid (number of checks written)
- Game-To-Date Totals
- Total number of retailers per region

Regional analysis may be performed by game for all regions or by regions for all games. Daily and game-to-date totals are provided to examine a regions performance as it changes in the market. In addition, the retailer population is calculated for each region relative to the activity incurred for that day.

Sales Performance Analysis

Note: Phasing of each subject to change based on analysis and priority establishment.
 N=Not available
 U=Phase not established
 #=Phase

	IBM	TANDEM	PHASE	COMMENTS
On-line Facilities: - Retailer statistics, by product, for weekly and year-to-date activity - Product statistics for weekly and year-to-date activity	X	X	4	SUBJECT TO ANALYSIS - PRIORITYIZATION
Automated Interfacing and Processing: - Daily instant sales activity for weekly, monthly, and year-to-date statistics - Weekly on-line activity for sales analysis and reporting	X	X		
Reporting: - Retailer weekly, monthly and year-to-date sales - Product comparisons - Quota analysis on budgeted performance - Combined on-line and instant sales analysis - Weekly averages and trend analysis - Demographic analysis (state, region and county) - Market share and per capita evaluation - Ranking analysis	X	X		
	X	X		
	X	X		
	X	X		
	X	X		
	X	X		
	X	X		
	X	X		

SALES PERFORMANCE ANALYSIS

The Sales Performance Analysis System provides the Lottery Sales Department with key sales information for weekly, monthly and year-to-date reporting. Sales information is captured, by product, and reported on for retailers, chains, headquarters and key accounts. Performance, demographic and ranking reporting will allow users to assess sales performance not only within specific geographical areas, but also within specific business types and promotional programs. Ranking may be analyzed by sales dollars, market share or per capita.

Our Promotional Program system allows users to set up, maintain, and analyze the impact of a promotional program on specific market segments and retailer types. Retailer performance levels can be analyzed against projected quotas and corresponding bonuses may be rewarded.

The Sales Analysis Performance System also provides the Lottery with the information necessary to track, evaluate, and determine specific sales activity for the retailers. In addition, combined reporting of on-line and instant sales allows for more accurate analysis of total sales activity to the business as a whole.

Directors Information

Note: Phasing of each item subject to change based up analysis and priority establishment
 N=Not available
 U=Phase not established
 #=Phase

	IBM	TANDEM	PHASE	COMMENTS
On-line Facilities: - Daily snapshot of low, mid and high tier prize payment summaries	X		U	SUBJECT TO ANALYSIS & PRIORITIZATION
- Daily snapshot of retailer stock percentages and active pack ratio as it exists in the market	X			
- Game-to-date totals for low, mid and high tier prize payment summaries	X			
- Estimated daily and game-to-date inventory balances for packs available for sale at the retailer and active for redemption	X			
- Daily prize / sales comparisons between active games.	X			
Automated Interfacing and Processing: - On-line, real-time processing of prizes paid summaries	X			
- On-line retrieval of year-to-date and inception-to-date retained earnings from the general ledger subsystem	X			
Reporting: - Summarized game status activity	X		U	

DIRECTORS INFORMATION

The Director's Information provides the Lottery executives with on-line, real-time information on Lottery estimated sales and prizes paid. The following key information is include in the ACCLAIMS Director Information:

- Low, Mid and High Tier Prize Payment Summaries
- Inventory Balances for Retailer Stock and Active Packs
- Game Status Activity
- Estimates sales, by prize tier, for each game

Daily snapshots of the prize inventory are captured and provide Lottery users with specific performance figures for each game. In addition, the information allows users to track the market share of active packs for a specific game compared to the total tickets produced. Retailer stock is also tracked daily in order to provide the information necessary to evaluate how fast the game is being absorbed into the market. Historical information is stored in order for the lottery user to track a game's performance over a period of time.

The lottery user is also provided a summary comparison of prize and sales information of all active games through one inquiry screen. This information includes inventory of tickets ordered by the lottery for each game and the number of tickets sold to the retailers. Percentage of high tier prizes claimed for each game and percentage paid for retailer commissions are also displayed.

On-line Game Interfaces

Note: Phasing of each item subject to change based on analysis and priority by establishment.
 N=Not available
 U=Phase not established
 #=Phase

	IBM	TANDEM PHASE	COMMENTS
On-line Facilities: - Account balance inquiry / maintenance - Budget preparation and maintenance - Accounts receivable information for retailer - Maintenance of billing information - Payment of on-line claims - Security bypass processing - Collection (through offset processing) of other agency liabilities - Inquiry, by ticket number, of on-line claims paid - Processing of W2G's for on-line winners paid out in the field - Inquiry of retailer's bill statement	X X X X X X X X X X	U	Subject to analysis & investigation
Automated Interfacing and Processing: - Conversion of on-line sales information into ACCLAIMS activity - Tape transfer to AS/400 of on-line game financial and sales information - Electronic Funds Transfer (EFT) processing - Advanced program to program communications to transfer to the AS/400 financial and sales information - On-line claim authorization from the on-line vendor	X X X X X		
System Balancing and Controls: - Balancing of weekly on-line activity totals	X		
Reporting: - Weekly summary on-line activity report - General ledger reporting for all on-line claims paid through ACCLAIMS	X X		

ON-LINE GAME INTERFACES

The Financial, Claims and Sales Systems will allow for the interface between the on-line vendors system and ACCLAIMS. Through a tape process, weekly on-line sales activity (sales, commissions, cancels and payouts) is processed on our system for sales reporting and combined billing. On-line sales information is converted into ACCLAIMS activity for billing, then all General Ledger accounts are updated accordingly. A single tape process allows for only one EFT sweep. The sales data for all of the activity will be stored on the ACCLAIMS system to be used for combined analysis of on-line and instant sales activity.

Our Claims subsystem allows for payment of on-line winning claims supported by a direct connection with the on-line vendor's machine. Authorization numbers are passed to the ACCLAIMS system to allow for proper validation and payment of specific on-line claims. All claims paid are automatically interfaced to our Accounting and General Ledger System and accounts are updated properly. The accounting interface to the on-line system also allows us to provide the on-line vendor with a tape of all activity incurred for the specific accounting week.

ANNUITY PRIZE PAYMENT

The Annuity Prize Payment System automates the processes of maintaining and disbursing annuity prizes over multiple years. This system processes both jackpot prizes for on-line games and elimination drawings for instant games.

The Annuity Parameters screen captures the total grand prize amount, total initial payment, number of annuity payments and number of winning tickets for each drawing. The number of payments can be varied for each drawing providing additional flexibility. For each winning ticket, prize payments are scheduled according to parameters set up in the Annuity Parameters Maintenance screen for future years over the live of the annuity. Non-annuity on-line prizes (5 of 6 and 4 of 6) can be included in the first payment of the annuity.

The annuity prize for a winning ticket can be disbursed to a single claimant, or multiple claimants, based on a percentage of the total annuity set through the Annuity Parameters screen. Each claimant can have single or multiple beneficiaries which can be activated at any time; however, security must first bypass the original claimant in order for the beneficiary(s) to become fully active.

At the time of disbursement, transactions are automatically recorded to the General Ledger interface for prize liabilities, prize payments, federal and state tax withholdings and other withholdings (such as debt setoff collections). The Annuity Prize Payment system reporting includes warrant generation on an annual basis, annuity schedule listings and multiple claimant and beneficiary reporting.

End of Game Reconciliation

Note: Phasing of each item subject to character based upon analysis priority, establishment
 N=Not available
 U=Phase not established
 #=Phase

	IBM	TANDEM PHASE	COMMENTS
Automated Processing:		4	
- Reconciliation of the pack master file to physical ticket inventory	X		open
- Recording of pack/ticket discrepancies	X		
Reporting:			
- Inventory reconciliation exception report			
▪ Packs or partial packs not in physical inventory	X		
▪ Pack not at warehouse on the pack file	X		
▪ Retailer number not found on the pack file	X		
▪ Packs or partial packs not on the system as a return	X		
▪ Duplicate record	X		

END OF GAME RECONCILIATION

This system is used to add and maintain end of game boxes (EOGB's) in the ACCLAIMS System. End of game boxes contain both full and partial packs of tickets which are returned by retailers at the end of a game. Once entered into the system, these packs can be reconciled against the pack master file to balance the ticket inventory at the end of a game.

The Inventory Reconciliation Exception Report provides a physical record of any discrepancies between the physical inventory and the system inventory at the end of a game, thereby simplifying the reconciliation process.

The type of discrepancies that this system will identify and report on are as follows:

- Pack not in physical inventory - Pack is on the system as a full return but is not in the physical inventory.
- Partial pack not in physical inventory - Pack is on the system as a partial return but is not in the physical inventory. Partials must be investigated carefully.
- Pack not in warehouse on pack file - The current location of the pack on the system is not at a warehouse. All returned packs should be at a warehouse.
- Retailer number not found on pack file - The number of the retailer that returned the pack is not in any of the last four locations at which the pack had been. This may mean that the pack has been transferred among warehouses more than once.
- Pack not on system as a return - The full pack returned exists physically, but is not at full return status on the system.
- Partial pack not on system as return - The partial returned pack exists physically, but is not at partial return status on the system.
- Duplicate record - A full or partial pack had been entered into two different End of Game boxes during Inventory Reconciliation data entry. This message will appear on the report even if the duplicate has a match on the system.

Retailer Applicant System

Note: Phasing of each it
 subject to char used
 analysis and pi ty
 establishment,
 N=Not available
 U=Phase not established
 #=Phase

	IBM	TANDEM	PHASE	COMMENTS
On-line Facilities:				
- Tracks instant and on-line retailers	X			
- Separate screens for application entry and active status control	X			
- Customized clearance types (i.e. marketing, security, tax, etc.)	X			
- On-line report request screen	X			
- On-line retailer inquiry by name	X			
- Submitted, resubmitted and completed date tracking	X			
- EFT account and routing information inquiry / maintenance screens	X			
- Retailer account prenote status inquiry	X			
- Retailer rep assignment tracking	X			
User Control:				
- Up to 40 users	X			
- Data secured through user profile control	X			
- Determine when an application would be rejected	X			
- Determine policy of present applications	X			
Reporting:				
- Separate mailing and business addresses	X			
- Average traffic counts for retailer stores	X			
- Automated retailer license printing	X			
- Productivity reports (i.e. applications processed per week, day)	X			
- Status of all applicants presently being processed	X			
- Retailer applicants by region, zip code or county	X			

RETAILER APPLICANT SYSTEM

The Retailer Applicant System is a component of our ACCLAIMS product. It provides a multi-user environment for the entry of retailer applications and a means for tracking these applications through the approval process (i.e., security clearance and marketing approval). Information gathered includes all necessary location information, EFT account and routing information, telemarketing and marketing representatives, routing information and retailer demographics. Reporting is accomplished through the IBM standardized query language utility. This system is set up on a AS/400 model C10 for up to 40 users. Because this is the same software that will be run on the larger mainframe version of the AS/400, it would directly transfer over to the final system.

With this system, the application is entered on-line real-time. Throughout the approval process, the applicant's status is updated to reflect the passing or failure of multiple checks. Queries can be set to provide daily lists of these applicants who pass or fail the multiple checks.

APPLICATION SECURITY

Note: Phasing of each item subject to change subject to analysis and priority establishment
 N=Not available
 U=Phase not established
 #=Phase

	IBM	TANDEM	PHASE	COMMENTS
On-line Facilities:				
- Employee data base maintenance	X			
- Employee inquiry by social security number, by name, or by employee number.	X			
- Assignment of retailer license number	X			
- Set up of retailer application clearances	X			
- Monitoring of retailer application clearances	X			
- Security bypass for high tier claims validation	X			
- Game parameter maintenance	X			
- Pack master file load request	X			
- Validation file load request	X			
- User profile and sign-on security	X			
- Terminal access security	X			
- Subsystem access security	X			
- Mainframe log-on ID maintenance/tracking	X			
Automated Interfacing and Processing:				
- Claims system	X			
System Balancing and Control:				
- Maintenance reporting	X			
- System activity logging with hard copy and/or disk (both system and application driven)	X			
- Transaction journalling	X			
Reporting:				
- Employee data base	X			
- Employee listings by name, status and social security number	X			
- Retailer license printing	X			
- Master file update security reporting	X			
- Security audit exception reporting	X			
- Activity log by time, by date, by application, or by data base activity	X			
- Pack master file load report	X			
- Validation file load report	X			

APPLICATION SECURITY

The Security subsystem allows security users to maintain sensitive data in the ACCLAIMS system. Several areas of responsibility covered by the security subsystem include: 1) Employee Security, 2) Retailer Licensing Data Maintenance, 3) Claims Security By-Pass, 4) Game Parameter Maintenance, 5) Pack/Validation/Debt Setoff File Loads, 6) Menu Security and 7) User Profile and Sign-on.

Employee Security

The employee security function requires security to perform background checks on every new employee. This information, used to prohibit employees from playing the lottery, is then entered and maintained on the Employee Security Information Screen. Audit trails listing all employee maintenance activity are produced in the nightly processing. An Employee Listing can be requested at any time to detail employee information either for a range, or for all employees.

Retailer Licensing Data Maintenance

Retailers are added to ACCLAIMS using the Retailer License Data Maintenance screen. Security sensitive data including delivery address, billing address, and license status may be maintained by those able to access this application. Any additions or changes will be recorded on an audit trail report generated in nightly processing.

Claims Security By-pass

Several by-pass situations may occur when validating a high-tier claim: 1) Employee Security By-pass (claimant is either an employee of the lottery or has been cross-referenced to an employee), 2) Debt Set-off By-pass (claimant owes money to the state), 3) invalid pack/ticket status (ticket is damaged or stolen), or 4) Invalid game status (claim made before game start date). Upon notification, security will investigate the situation and decide whether or not to by-pass the claim. If the claim is determined to be valid, security can update the claim as by-passed through the Claims Security By-pass application, which in turn will allow the claims clerk to continue processing the claim. The by-pass situation will automatically be reported in an audit trail report produced by nightly processing.

Game Parameter Maintenance

The addition and modification of values defining a game can be entered through the Game Parameter Maintenance application. Formatting the values contained on this screen is usually the first step to initializing a new game for the lottery. All files loaded to support a new game validate that the game has been entered through this screen and that the values entered are accurate.

Pack/Validation /Debt Setoff File Loads

For each game, the vendor will send to security a tape containing all pack numbers of packs that will be sent to the lottery and a tape which contains valid winning ticket/encrypted validation numbers. In addition, a tape will be received periodically from state agency(s) containing social security numbers of those persons owing money to the state. Request screens for each particular load are available, simplifying the task of loading sensitive data onto the system. Control reports, generated from the loading process, can then be reconciled in order to verify the success of each load.

Menu Security

ACCLAIMS provides for custom tailoring of menu access for each group of users. This provides users with only the screens required to perform their job functions. For example, the tel-marketing function may only have access to order entry and retailer statistics screens and would not have access to executive information or accounting screens. There are no constraints on the number of groups that can be created for menu access.

User Profile and Sign-On

There are multiple security features within ACCLAIMS providing the maximum amount of protection against unauthorized system access. Each user is given an individual user I.D. and password. The password can be changed by the user at any time by simply pressing a command key and typing the new password. Also, terminal access can be limited through table driven parameters.

KANSAS LOTTERY INFORMATION PLAN

I LOTTERY MISSION

The Kansas Lottery was authorized by statute to implement and run a lottery, with a percentage of revenues generated by lotteries to be placed into the State Gaming Fund. Monies in this fund are disbursed according to the dictates of the legislature.

II AGENCY GOALS AND OBJECTIVES

The primary goal of the Kansas Lottery as related to the information management function is to develop a fully integrated software and hardware configuration that will be flexible enough to accommodate any anticipated growth. The Kansas Lottery Data Processing requires staffing and computers to accomplish all necessary sales, marketing, accounting, and other functions, at least on a minimally acceptable level. Due to various security considerations, staffing, computers, and other items related to Lottery business are independent of other state agencies with the exception of personnel matters, payroll, and other payments (vendors and winners).

III CURRENT INFORMATION MANAGEMENT SITUATION

The Lottery purchased a software package designed by British American Bank Note (BABN), and Tandem hardware as the platform for the software. The package, although sufficient to get the Lottery through startup mode and through the first several years of operation is lacking in several key areas.

LottoSTARTS, as the package is named, is not sufficiently integrated to allow the most efficient usage of computer resources. Although a large amount of raw data is captured, for example, some accounting functions are accomplished on PCs utilizing printed reports from LottoSTARTS as input. Various marketing functions, such as demographic research, are not handled in LottoSTARTS either.

This lack of integration has been a major criticism from external audits. Several Legislative Post Audit Reviews, audits by Arthur Anderson (the State Authorized Auditor), Arthur Young (the Lottery's external auditor), and most recently Meyers & Stauffer, reference the lack of integration as a negative.

The primary drawback to LottoSTARTS, however, is the fact that the Kansas Lottery is the only organization utilizing this software and the vendor (BABN) is no longer marketing the package. This means that all support for the system is the Lottery Data Processing department, which functions with minimal staffing. The Lottery faces the risk of having problems develop within LottoSTARTS that we are unable to fix within a realistic time frame because of our minimal staffing levels and the unavailability of outside support. Since revenues are dependent upon the sales support functions of LottoSTARTS, problems with the software can have a major impact upon the ability of the Lottery to provide income to the state.

Experience in the business of running a lottery operation has pointed out several other shortcomings in the present system. The number of games that can be sold at any given time had been fixed at three, for example, restricting Lottery ability to efficiently handle varying market conditions. A fix that allows more than three games was designed and installed in 1991, but it is a "patch" job that cannot easily be integrated into the system and which requires additional manual operations to accomplish the objective. A good fix to the lack of versatility would take considerable manpower to both fix the lack and to integrate the fix into the software, with the latter being the most time consuming portion.

With the Lottery meeting basic information management requirements, but not having adequate resources to fully and efficiently utilize the potential of the information management system, current status could be classified as "limping along."

One additional area of concern at the present time relates to Personal Computers and Personal Computer Software. As we mature as an organization we find that various functions now being handled on Personal Computers are expanding in scope. The main areas of this expansion are in Accounting functions and in Marketing. Additionally, we find that a need for standardization of software used for these functions has developed.

IV INFORMATION MANAGEMENT DIRECTION

As stated in section II, the primary goal of the Lottery as related to the Information Management Function is to enhance systems and procedures to enable full integration of all aspects of the operation. This will put us into compliance with the audits mentioned earlier, as well as giving us a fully functional system.

After a thorough evaluation of the proposed five-year plan discussed in last year's Information Management Plan, it was decided to forgo an internal re-design of the LottoSTARTS system. Instead, the most cost-effective and logical approach was determined to be purchase of a vendor written software package combined with a new hardware platform on which it would run.

A package put together by Anderson Consulting was evaluated and determined to be the best available to meet the needs of the Lottery. This package, ACCLAIMS, runs on an IBM AS/400 platform. It is in use by a number of lotteries, and the track record is excellent. A User's Group plus the commitment of Anderson Consulting to ongoing support would provide the Lottery with the support and ongoing enhancements needed to remain current with available software.

A request was submitted for authority to purchase the ACCLAIMS software package and associated hardware in the 1992 budget year (Attachment "C"). However, due to a freeze on purchase of new equipment and software, we will be unable to upgrade at least until the 1993 budget year. Until such software and hardware is purchased the Lottery will attempt to function as best as possible under the existing software/hardware environment. The anticipated cost of this package, including hardware, software, and necessary training, is in the neighborhood of \$1.1 Million. Section VI, Attachment "A" and Attachment "C" go into details of background, feasibility, and cost/benefit analysis

As technology improves and new methods of using that technology for Lottery operations are devised, studies of such new technologies (including cost/benefit analysis) will be performed. If appropriate, such new technologies will be purchased. One example of such a study is one currently being done of the feasibility of a system that would allow for on-line validation of winning instant tickets. Another study recently undertaken showed that, although there are advantages to satellite hookups for on-line terminals, the disadvantages outweigh the potential benefits.

Another area to be considered for equipment and software purchase is Video Lottery. Although enabling legislation failed to pass this year, there is a good chance it will be passed in the next legislative session. Implementation of Video Lottery will require computer hardware, computer software, and telecommunications facilities. Until such legislation is passed and parameters are established, specific requirements are impossible to determine. One of several viable options for implementation of Video Lottery would be for a vendor to provide the equipment, software, and expertise on a percentage of revenue basis. This method,

though not the most favorable from the standpoint of continuing revenue to the state, would not require any capitol expenditures.

Where appropriate, consultants will be used for studies and/or implementation of projects. However, careful evaluations will be done to ensure that consultants are not used for those functions that would be better handled by in-house staff.

In the Personal Computer area, the need has developed for better standardization of software, the ability to share files between users (a Local Area Network of sorts), and to provide access to production data resident on the Lottery computers. Section VI of this document includes a method by which the Lottery will be able to accomplish this standardization of software, shared files, and read-only access to production files, while allowing for elimination of as many as 14 Personal Computers. Cost of the necessary software is included in the price of the software listed in Section VI.

V EXAMPLES OF IMPLEMENTED PROJECTS

An Internal Control System (ICS) to provide necessary checks and balances against the winner selection and sales reporting of our on-line vendor was installed as per contract with our on-line vendor. The system, as installed, was not in an easily maintainable format. The Lottery Data Processing staff re-designed the ICS system to improve running speed, maintainability, and report generation. A two month parallel acceptance test was begun on June 1, 1991. By implementing this re-designed system the Lottery was able to avoid the cost of an outside maintenance contract, as well as general system streamlining, documentation, and report enhancements.

VI FEASIBILITY STUDIES FOR PROPOSED PROJECTS

PROJECT: Replace LottoSTARTS WITH ACCLAIMS software (included in this will be replacement of TANDEM hardware with IBM hardware, and elimination of the IBM S/36, with its Office Automation functions migrating to the new hardware)

PURPOSE: To meet mandates of various audits by ensuring an integrated system, which includes a General Ledger package; to enhance sales and marketing support functions; to upgrade the Lottery Office Automation system; to eliminate the risks involved in being the only user of a software package that is no longer marketed; to obtain the benefits of experience other lotteries have with a software/hardware package; to reduce dependence upon PCs for functions that would be more effec-

tively performed on an integrated computer system. (See Attachment "C" for a summary of the research that went into package selection).

COST: Initial outlay for hardware, software, and consulting services (less trade-in of existing equipment) is projected to be \$930,000. Ongoing maintenance cost after the five year warranty period expires is projected to begin in year 6 at \$19,812, and increase at the rate of seven and one-half percent per year thereafter. No personnel, space and environment, training, data conversion, or DISC costs (other than what is covered under the category of "consulting services") will be incurred. (See Attachment "A" for details)

COST OFFSETS: Savings in cost of maintenance would total \$775,033 for the first five years, \$171,844 for year six, and \$184,732 for year seven. The initial outlay would be recouped from this savings in maintenance cost alone in approximately six years. However, conservative estimates are that net sales will increase by one percent. Applying that one percent figure to Instant and Pull Tab sales for FY1991 shows a net sales increase of \$300,000 per year. Approximately 12.5% of sales is applied towards administrative costs, so another \$37,500 per year would accrue as a direct result of the upgrade. Applying that to the payback brings it to approximately four years and eleven months for a payback period. (See Attachment "A" for details).

The estimated \$100,000 cost of a General Ledger package (mandated by the Legislative Post-Audit Committee and funded but not spent in the FY1991 budget year) would, if applied instead to purchase of this system which includes an integrated General Ledger package, shorten the payback period by another six months, to a total of four years and five months.

UNQUANTIFIABLE COST OFFSETS: The ability to more efficiently manage inventories and orders will likely reduce the number of returns, thereby increasing net revenues. The lower exposure to age related system problems potentially impacting the ability to sell and deliver tickets can, if it keeps us from having just one problem, save significant dollars in lost sales.

INTANGIBLE BENEFITS: The lessened exposure to age-related hardware problems will minimize Lottery exposure to down-time situations that could have a very negative effect on sales (in addition to reducing exposure to contractual difficulties with

MUSL were the Lottery to miss commitments related to Lotto*America). The increased flexibility of report generation capabilities will provide better reports for user departments. The "user-friendliness" of the Office Automation system will provide an incentive to make better use of E-Mail and other capabilities that are unused in the current system. Data Processing time now devoted to resolving problems, working around the lack of integration, etc., will be more effectively utilized to provide enhancements to the system, as well as providing better turn-around for ad-hoc requests. Standardization of software used for traditional PC applications, the ability for read-only access to production files (for those authorized), and the ability to share files between groups of users will enhance the overall operation.

PROPOSED CONFIGURATION: To properly size an AS/400 requires factoring in ACCLAIMS basic software requirements, Office Automation requirements, capacity for development, and requirements for ICS. The preferred configuration is an AS/400-D35 handling the ACCLAIMS with sufficient excess capacity to handle ICS, plus an AS/400-D20, which would handle normal ICS processing, Office Automation, and development requirements. The two major benefits of a two-system configuration are: (1) normal development and ICS would not impact the production ACCLAIMS environment; and (2) the Lottery would meet the MUSL requirement calling for ICS to run on a Fault Tolerant computer or to have a fully redundant backup computer system.

VII CURRENT CONFIGURATION: The present configuration, as shown by Attachment "B" consists of the following:

- a) A TANDEM EXT-25 computer running the Back Office system (LottoSTARTS), and hooked up to printer and terminal equipment at each of the four regional offices
- b) An IBM System 36, used for Office Automation and controlling 35 terminals (word processing, E-Mail, and Calendar).
- c) Twenty-three Personal Computers (PCs) utilized for various functions. Two are assigned to Security. One is assigned to Personnel (also tied into the State personnel system). One PC is assigned to Communications, and one to Sales/Marketing. Accounting has eight (some of which tie into STARS). The Internal Auditor has one, Data Processing has five, Telecommunications has one, and three are at regional offices.

A T T A C H M E N T "A"

COST OF SOFTWARE:	\$ 380,000
(includes ACCLAIMS, ICS, Office Automation, spreadsheet, data base, and all IBM software)	
COST OF SOFTWARE INSTALLATION:	\$ 400,000
(includes setup, conversion of old data, operational training, documentation training, programmer familiarization, post installation support)	
COST OF HARDWARE CONFIGURATION:	\$ 250,000
(includes two AS/400s, a Model D35 for main processing a Model D20 for Office Automation and development, and a 5 year extended warranty)	
ANTICIPATED TRADE-IN VALUE:	(\$ 100,000)
(includes IBM S/36 and TANDEM EXT-25)	
TOTAL COST EXCLUDING MAINTENANCE:	<u>\$ 930,000</u>

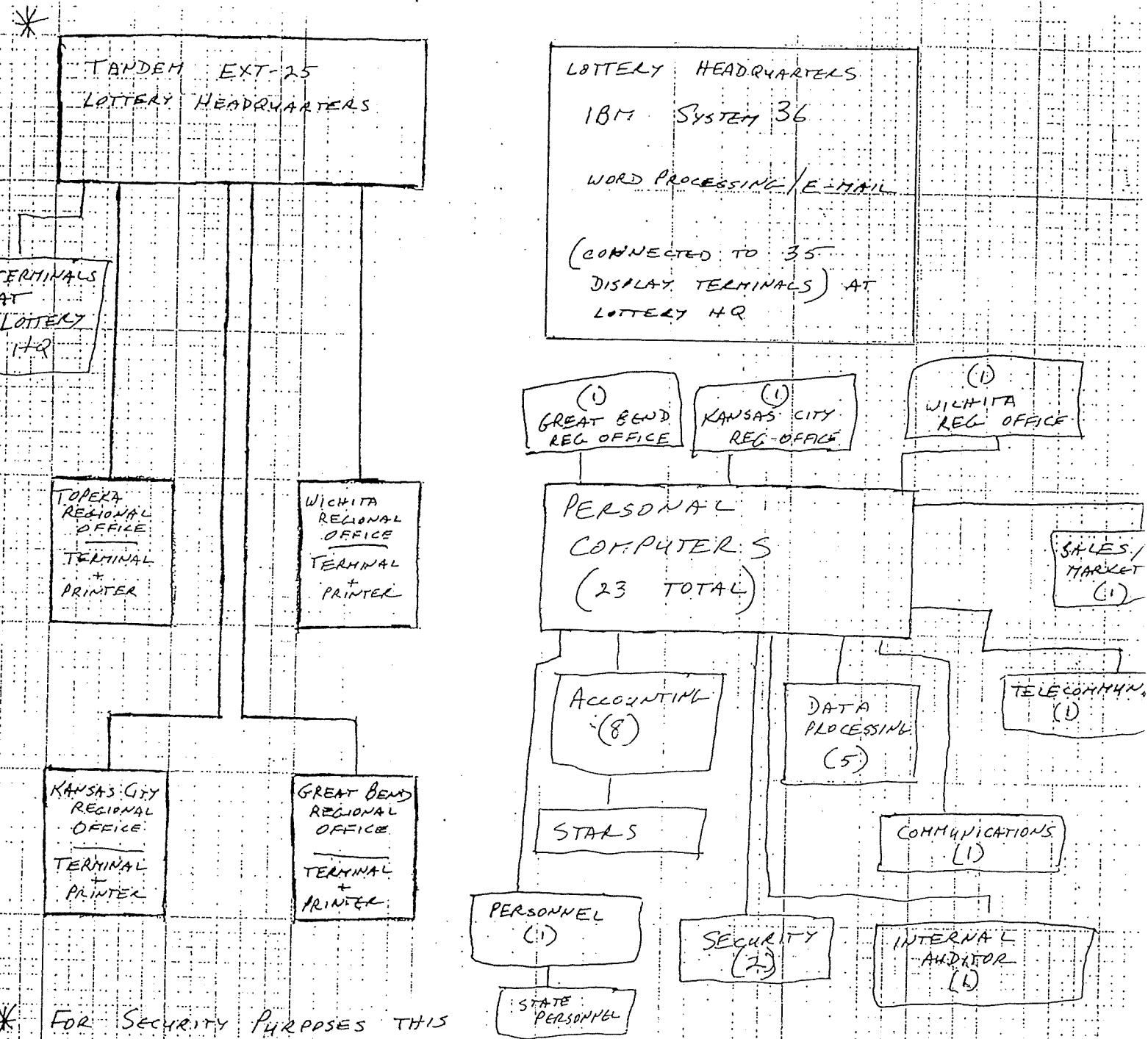
PAYBACK CALCULATIONS:

YEAR	MAINT COST NEW SYSTEM	MAINT COST OLD SYSTEM	ANNUAL SAVINGS	SAVINGS TO DATE
1	-0-	\$133,500	\$171,000	\$ 171,000
2	-0-	\$143,125	\$180,625	\$ 351,625
3	-0-	\$154,276	\$191,776	\$ 543,401
4	-0-	\$165,847	\$203,347	\$ 746,748
5	-0-	\$178,285	\$215,785	\$ 962,533

Notes:

- 1- The figure of \$ 930,000 will have been achieved in the eleventh month of year 4.
- 2- Maintenance cost for all systems is increased at a conservative 7.5% annually for inflation.
- 3- Annual Savings is calculated by adding maintenance cost savings to \$37,500 per year (12.5% of the projected one percent increase in sales)
- 4- Additional savings would accrue from:
 - a) elimination of surplus Personal Computers; and
 - b) reduced requirements for Personal Computer software packages.

CURRENT CONFIGURATION



* FOR SECURITY PURPOSES THIS SYSTEM IS NOT TIED IN ANYWHERE BUT TO TERMINALS AT HEADQUARTERS AND TO THE REGIONAL OFFICES. ALL CONNECTIONS ARE VIA DEDICATED TELEPHONE LINES.

M E M O R A N D U M

To: Walter Darling, Budget Analyst
Division of the Budget

From: Jimmy D. Grenz, Deputy Director
Kansas Lottery

Date: March 1, 1991

Subject: Lottery Computer Environment

As follow-up to our previous discussion concerning the Kansas Lottery computer environment, I am providing you with information on its history, present status and future agency needs.

In 1987, the Lottery was in its infancy and needed computer hardware and software which could track instant tickets from the time they were ordered from the manufacturer through sale by the individual retailers, payment of prizes, and finally through destruction of unsold inventory.

Requests for proposals were issued and British American Bank Note Corporation (BABN) of Canada was ultimately chosen as the successful bidder for both the instant ticket contract and as the instant ticket computer software provider. BABN developed its instant ticket software, known as LottoSTARTS, on a Tandem computer. BABN chose Tandem computer architecture for two basic reasons. First, it was a computer environment with which BABN programming personnel were familiar. Secondly, Tandem offered a fault tolerant system which at the time was believed to be necessary for Lottery operations. Since initial start-up, fault tolerance has proven to be unnecessary. It is important to note at this point that the development of LottoSTARTS was the first and only attempt by BABN to develop instant ticket software. BABN no longer markets this instant ticket software product nor does BABN or any other company support LottoSTARTS software.

Following a rapid development and installation schedule, instant tickets went on sale on November 12, 1987. Almost immediately the Lottery began to discover many shortcomings in the software, and following a series of discussions and negotiations with BABN LottoSTARTS software was modified.

These modifications, known as Generation II, still failed to meet agency needs, and perhaps more importantly, they fell far short of addressing emerging legislative concerns. Among the major concerns being voiced by legislative committees was that the agency computer systems were not integrated and that financial data had to be reconciled manually. These factors contributed to errors in reports, and reports were not being issued in a timely manner. It was noted that more accurate financial information would be available on a more timely basis if the various sources of information could be integrated on the Tandem computer system. During its review of agency operations, the Legislative Post Audit Committee recommended that the Lottery explore the possibility of software enhancements and modifications to allow the installation of a fully integrated general ledger package on the Tandem computer.

Myers and Stauffer, the agency's outside auditing firm, received the contract to perform this study and to make recommendations concerning solutions. Their study was limited to trying to develop and recommend inexpensive solutions to satisfy the Legislative Post Audit Committee's concerns with financial data management and full integration of a general ledger on the Tandem. Myers and Stauffer was not attempting to resolve the myriad of other problems associated with the BABN instant games software. Myers and Stauffer was able to identify two businesses which offer general ledger software for Tandem architecture. Both of these businesses are Tandem business partners. Either of these general ledger packages can be integrated with the LottoSTARTS instant games software but integration will require a good deal of effort by agency programmers or contract programming personnel. The cost for this solution, if interfacing is accomplished in house, is estimated to be about \$100,000 to \$150,000. The agency has tested both general ledger packages, and each appears to be acceptable from the financial management standpoint. However, installation of either of these software packages will address only a small portion of the numerous existing inadequacies.

In evaluating the overall needs of the agency, consideration of the following is in order: Kansas is presently the only state using LottoSTARTS software. This software has many, many shortcomings. It was developed on a Tandem computer which is expensive as well as difficult to maintain. The LottoSTARTS software is very poorly documented, this factor makes programming changes extremely difficult. This creates an environment in which unexpected and unanticipated results are commonplace when even minor programming changes are made. The amount of time expended in resolving small changes can be and often is exorbitant.

These factors led management and data processing personnel to look for alternate solutions. Among the alternatives explored were:

Rewriting the entire instant games software package, customizing it to the needs of the Kansas Lottery. This proposal is estimated to take as long as five years to complete and would require as many as six additional full-time employees.

A second option explored was the purchase of the Washington State Lottery software currently being developed for a Tandem computer. While this software appears to be excellently documented, the Washington Lottery is only in Phase One of a three-phase project which is not scheduled for completion until January, 1992, at the earliest. Additionally, the Washington software package does not and will not have a general ledger included, a deficiency which would have to be addressed by the Kansas Lottery in order to satisfy legislative concerns. While the price is most reasonable, estimated at about \$15,000, there is no guarantee of when the package will be completed, and Washington Lottery officials have stated that they are not in a position to support this software after the proposed sale.

A third alternative looked into involves the purchase of the Washington software and then taking the best of it and integrating the best of LottoSTARTS and a general ledger, into one custom software package. This again would call for additional staffing and unspecified time requirements.

A fourth, and the final, solution explored by Lottery management has been to replace the present LottoSTARTS software with a software package which addresses the current needs of the agency as well as providing a solid base and flexibility to meet the future requirements of the Kansas Lottery.

The above considerations led management to look at the ACCLAIMS software package developed and marketed by Andersen Consulting. ACCLAIMS software has been chosen by the five newest lottery states, and it appears that ACCLAIMS has more to offer than the other solutions examined. Andersen Consulting developed the ACCLAIMS software package over a period of several years, and through this process has dealt with the majority of the lottery states in the United States, as well as a number of lotteries outside the U. S. Their software was developed from an accountant's point of view and seems to satisfy the concerns voiced by various legislative committees. Andersen has developed a user's group among the

various lottery states they serve. Enhancements and developments are shared among the members for the benefit of all. While the Lottery doesn't wish to sound like a commercial advertisement for ACCLAIMS, Andersen Consulting has developed a program which meets the agency's current needs and provides flexibility for years to come. Andersen Consulting chose IBM architecture on which to develop its software. ACCLAIMS is written in RPG (report generating language) for installation on the IBM AS400 series computers.

The total cost of implementation of the Andersen Consulting solution is approximately \$1.5 to \$2 million, which includes both software and hardware. Although this solution is the most expensive, it is the only solution which answers both immediate and future needs. From the date of order, this system could be installed and made operational in a period of 4 to 6 months, which is most inviting when compared to the other solutions.

The Lottery is seeking direction and assistance in determining the proper course of action. Should the Lottery maintain status quo, install a general ledger software package only, rewrite present software, purchase Washington State software and modify it to meet agency needs, or should the agency seek to replace the present software and through necessity replace present hardware?

Following is a partial listing of the major features, benefits and shortcomings of the various solutions which include estimated costs where known and approximate installation times.

#1 - LottoSTARTS/Tandem Computer

LottoSTARTS is very poorly documented, which gives rise to many problems associated with maintenance and modification. Programmers are forced to use trial and error methodology. Examples include the fact that the Lottery is limited to having only three instant games on the system at any given time. This limitation results in lost revenue, as an active game must be terminated in order to introduce a new game. This revenue loss is a result of decreased sales of the terminated game, and the actual cost of the tickets which are shredded because of ticket returns when a game is prematurely ended. LottoSTARTS does not contain a general ledger, and this software is not fully integrated with other games. LottoSTARTS does not capture, in usable form, many of the marketing types of information which are available in the ACCLAIMS software package. This information would be most valuable in accessing marketing trends and developing marketing strategies to enhance lottery sales. Regional sales information is difficult, if not impossible, to retrieve. Ad hoc reports require new, often cumbersome, programs to be written. LottoSTARTS software is written in the

Tandem version of Cobol which requires a higher degree of knowledge on the part of programmers than many other languages, thus making the hiring and retention of employees more difficult.

LottoSTARTS software does not exist anywhere else in the world, and it is not supported in any manner by the developer. This means that the Kansas Lottery is unable to take advantage of system innovations and improvements which are being developed in other lottery jurisdictions. The Kansas Lottery must repeatedly re-invent the wheel, a major drawback in a rapidly moving and changing industry.

The Tandem computer system is an excellent fault tolerant system. Although fault tolerant systems do offer some advantages when it comes to reliability, they are expensive to own, operate and maintain. At present the Lottery pays about \$125,000 yearly for maintenance of the Tandem system. This can be compared to the cost of \$25,000 annually for an IBM AS400 series system. Fault tolerance is no longer a requirement for Lottery back office (instant games) software. With the exception of Washington State, no other Lottery uses a Tandem computer system. No other development group has developed or seems interested in developing lottery software on a Tandem computer. More than one third of the state lotteries, which includes the five most recent lottery states, have chosen to install Andersen Consulting (ACCLAIMS) software which operates on IBM AS400 series computers. While remaining status quo would not require capital outlay or time to implement, it certainly does not address the wide variety of agency and legislative requirements and concerns. It also severely limits the growth potential of the Kansas Lottery instant games.

#2 Installation of a General Ledger Package

The legislature did grant sufficient funding in the FY1990 budget of the Lottery to install a general ledger software program on the Tandem computer system. Estimated costs involved are approximately \$100,000 to \$150,000. Present estimates for acquisition and installation are July, 1991. This would be followed by integration of the general ledger program into the LottoSTARTS software, which will take several months to accomplish by staff. Time could be reduced to several weeks if integration is accomplished using the general ledger software contractor who would be devoting full time to the project. Substantial additional costs would accrue to the agency under this scenario. This option would address the major concerns voiced by the Legislative Post Audit Committee, but it does not address any of the other existing problems and does nothing to position the agency to resolve future needs such as bar-coding. It is at best a "Band-Aid." It is not a solution.

#3 Customizing Present Software with or without Washington State Software.

This option at first might appear as an acceptable, even desirable, solution. It would make use of existing hardware and software, and if the Washington State Lottery software package were purchased the cost would be nominal, about \$15,000. However, many pitfalls become apparent when it is viewed more closely.

First it would still require the purchase of a general ledger software package at \$100,000 to \$150,000 and interfacing this package with LottoSTARTS. If the Washington State software is used it would have to be taken apart and integrated into the LottoSTARTS and general ledger software to create a unique Kansas Lottery software product. This process would be manpower intensive, requiring additional staffing, and would be time consuming. Estimates of time needed to complete this process extend up to five years. Kansas would not benefit from the experience of other developers, and would have to start from square one any time enhancements were made. On top of all this is the most important factor of all: In the end the Lottery would be unable to guarantee that the system would work as envisioned because there is no track record. The Kansas Lottery data processing staff has never taken on a project of this magnitude. The Lottery is informed that custom programs and major rewrites of software at this level have not received favorable review by the State, based on the past performance by agencies which have undertaken such tasks. Historically major rewrites have taken much more time to complete than estimated. They have been much more expensive than expected, and additional staff hired for the implementation phase often stay beyond project completion becoming additional permanent full time employees.

ACCLAIMS - IBM

This solution appears to offer the best solution to the overall needs of the agency, not only for the present but for the future as well. It is the most expensive solution when viewed only from a short term perspective, but over the long term it would pay for itself. This is because of features built into the software and the substantially lower maintenance costs associated with hardware. One important software feature of ACCLAIMS is the allowance for up to 99 instant games. The addition of this feature would mean that instant games would not have to be prematurely ended, possibly allowing games to be completely sold out. The system allows pack size to differ from game-to-game which could be beneficial to overall sales by allowing retailers to order packs that suit their individual inventory requirements.

The software is module-based and is designed for expansion, to include features such as protected check writing, bar coding, and on-line validation. From the base program special features can be added when needed which maximizes cost effectiveness. Developments by members of the user's group are shared among all members; therefore, each benefits from the knowledge and developments of the others. Andersen Consulting and their ACCLAIMS software have a rock solid track record dating from the installation of their original lottery back office system in Arizona in 1986, to their most extensive ACCLAIMS installation in the state of Minnesota in 1990. Minnesota is a non-geop state that supports cross redeems of all low and mid-tier tickets and on-line bar code validation of all winners. The ACCLAIMS software package used in Minnesota has been developed to the point that it writes and signs all winners' checks, and it is set up to handle annuitized payments. Although all of these features are not presently needed by the Kansas Lottery they demonstrate the flexibility of the software. ACCLAIMS captures usable information and produces reports that enable sales and marketing personnel to make informed decisions concerning trends. Present software fails badly in this area.

The agency would benefit from the experience of Andersen Consulting in the private and public business arenas, as well as their vast experience within the Lottery industry. The cost of the Andersen Consulting ACCLAIMS software and IBM computer system necessary to operate the software is estimated at \$1.5 to \$2 million.

At this point I am sure that it comes as no surprise to you what the agency wants. The Kansas Lottery would like to purchase ACCLAIMS software and necessary hardware. An order placed during March, 1991, would allow sufficient time for installation and testing to make the system operational on July 1, 1991, the beginning of the new fiscal year. According to Andersen Consulting, initiating operations on the ACCLAIMS software at or near the beginning of a fiscal year would minimize the amount of computerized history necessary for migration to the new system. This translates into cost savings for the agency.

This brings us to the matter of funding as the Lottery does not have sufficient budgetary authority in the FY1991 or FY1992 budget request to fund such a purchase. Perhaps the following is worth consideration:

Preliminary discussions with Andersen Consulting have been forthright and they are aware of our present financial position and the fact that the agency is facing sunset review in the 1992 legislative session. Andersen Consulting is aware that the agency is presently considering two general ledger software packages for installation on the Tandem computer. Viewing this as only a short-term, temporary fix of only one

issue, Andersen Consulting has proposed that the Kansas Lottery not purchase a general ledger. Andersen Consulting is in the position of financing the cost of ACCLAIMS software and IBM hardware until the fiscal 1993 budget year under the following conditions:

1. Revenue presently allocated for the purchase of a general ledger package at a cost of approximately \$100,000 to \$150,000 in the FY1991 budget be expended toward this purchase;
2. Budget allocations for Tandem annual maintenance, approximately \$125,000 in FY1992, be expended toward this purchase; and
3. That proceeds of the sale or trade of the Tandem computer system through the surplus property division of the State go toward this purchase. Trade or sale value of this system is estimated to be about \$100,000.

Under this arrangement final payment of the balance plus interest would be due during the FY1993 budget year. Following this proposal the agency would not have to amend its present budget request for FY1991 or FY1992. Andersen Consulting and IBM are willing to assume the risk that the Kansas Lottery will be extended beyond the next sunset review and that final budget approval for the purchase would be granted in FY1993 if other arrangements cannot be made prior to that. This is an inviting proposal, but it does come with the added costs associated with financing the unpaid balance which would be accruing until the agency could make final payment.

The agency anticipates that it will generate sufficient retained earnings during this time period with which to fully fund the purchase -- if revenues beyond the Governor's present estimates are allowed to be retained for this purpose.

Over the past several months the agency has gathered a vast amount of information concerning the various options discussed here. Should you desire to review any of these materials please advise. As stated previously the Lottery is seeking guidance and assistance from the Division of the Budget. Your consideration of this important matter is appreciated.

You should also be made aware that the Lottery is considering introduction of legislation in either this or the next legislative session which would allow the operation of video lottery terminals across the state. The passage of this legislation would possibly create the need for additional software and hardware in addition to that discussed here.