

Approved: March 10, 1997
Date

MINUTES OF THE HOUSE COMMITTEE ON FEDERAL AND STATE AFFAIRS.

The meeting was called to order by Chairperson Garry Boston at 1:30 p.m. on February 25, 1997 in Room 519-S of the Capitol.

All members were present except:

Committee staff present: Mary Galligan, Legislative Research Department
Mary Ann Torrence, Revisor of Statutes
June Evans, Committee Secretary

Conferees appearing before the committee: Jeff Rutland
Jim Edwards, Kansas Chamber of Commerce and Industry
Glenn O. Thompson, Stand Up For Kansas
Dave Schneider, President, Kansans For Life At Its Best
Frances I. Wood, Woman's Christian Temperance Union of
Kansas and Churches of the Nazarene volunteer
Rebecca Rice, Legislative Counsel, Kansas Coalition for Gaming
Equity
Lester L. Lawson, President, Kansas Clubs and Associates
Homer Morgan, Automatic Music Company

The Chairperson announced that the committee would meet on Wednesday, February 26th to continue the hearing on HB 2159 and Thursday, February 27 to continue the hearing on HB 2174 at 12:30 p.m.

HB 2174 - Providing for the operation of certain state-owned and operated lottery games at certain racetracks.

The Chairperson opened the hearing on HB 2174.

Jeff Rutland, Independence, testified as a proponent for HB 2174, stating there has been a dramatic effect that gaming, or the lack of it, would have on horse breeders of the state. The horse and greyhound racing and breeding industry in Kansas ranks in the top 15 in the nation as a leader of producing top quality racing animals. The industry pumps well over \$200M annually into the state's economy. This is not simply an issue to save the race tracks, but would save the entire industry. The Woodlands is our department store where our goods are sold and without it there is no need for our product. (Attachment 1)

Jim Edwards, Kansas Chamber of Commerce and Industry, testified as a proponent for HB 2174, stating this would allow certain lottery games to be played at sites currently offering parimutuel wagering on horse and dog racing and the Chamber supports that. While HB 2174 offers lottery games only and not electronic games of chance, it would still help address the two concerns that the Board focused on when making their policy decision.

The first concern was the protection of the capitol investments at the tracks, the jobs held by Kansans, and the taxes derived from both of these. Their second concern was that of protecting the dollars going into the State Gaming Revenues Fund and then into the Economic Development Initiatives Fund (EDIF). (Attachment 2)

Glenn O. Thompson, Chairman, Stand Up For Kansas, testified opposing HB 2174, since it would remove the current prohibitions on certain casino machines, not only at racetracks but at lottery retailers across the state. In 1994 the Kansas Supreme Court stated unanimously that "casino gambling is unlawful even if the term lottery is construed broadly." (Stephan vs. Finney, January 27, 1994).

In addition, the Attorney General stated in Opinion 92-125: (1) On-line lottery terminals are permissible only when used to produce lottery tickets or to monitor lottery performance. (2) Player-operated lottery machines with one-on-one play interaction between the player and the television display or the player and the terminal are prohibited and (3) slot machines are prohibited.

Two new definitions in the bill for "on-line equipment" and "central computer" eliminate these prohibitions, opening the door for player-operated casino machines. On-line equipment is defined as "any commission

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE FEDERAL AND STATE AFFAIRS, Room 519-S
Statehouse, at 1:30 p.m. on February 25, 1997.

approved terminal, or associated equipment, that is connected to a central computer for any purpose described in rules and regulations of the commission, including but not limited to security, monitoring, auditing and execution of activation and disable programs. On-line equipment may be equipped with one or more video display monitors." Central computer is defined as "any computer equipment operated by the lottery to which on-line lottery game equipment communicates for any purpose described in rules and regulations of the commission. Statutes related to gambling prohibitions should address machine function, not machine design. (Attachment 3)

Dave Schneider, President, Kansans For Life At Its Best, testified opposing **HB 2174**, stating they are opposed for a wide variety of reasons, but would like to focus on some public policy questions. There is a significant percentage of the population opposed to casino gambling, is it wise public policy to force them into a partnership in the casino business? (Attachment 4)

Frances I. Wood, volunteer representative of the Woman's Christian Temperance Union of Kansas and Churches of the Nazarene in Kansas, testified opposing **HB 2174**, believing expanding gambling would be a detriment to our state and the families of Kansas. It is too bad the breeding industry couldn't be content with raising show horses and show dogs. (Attachment 5)

Rebecca Rice, Legislative Counsel, Kansas Coalition for Gaming Equity, testified as an opponent to **HB 2174** because it creates a new class of lottery retailer providing significant financial advantage to one kind of business to the exclusion of all others for no apparent reason. The Coalition continues to oppose any legislation which is designed to give an economic advantage to one type of entertainment business to the detriment of all others. (Attachment 6)

Lester L. Lawson, President, Kansas Clubs and Associates, but speaking primarily as a Kansas Lottery retailer, testified opposing **HB 2174**, stating it may create two classes of lottery retailers in Kansas. The racetracks have said all they have wanted was for the games that are currently legal and being played in Kansas to help make the racetracks more profitable. It appears that the racetracks also want millions that the state makes on the Lottery, nothing resembling the 5% commission the retailers make. Why are two kinds of Kansas lotteries needed, one for the state and one for the racetracks. (Attachment 7)

Homer Morgan, Automatic Music Co., Wichita, in opposition to **HB 2174**, stated that gambling does effect every citizen of Kansas more bad than good. In other states where random gambling has been allowed, compulsive gamblers sacrifice their family values for the cheap thrill of slot machines and casinos. A small amount of revenue earnings go back into the state of Kansas, but most go to out of state investors who only know Kansas as a cash revenue source. These out of state investors who have made bad business decisions are asking you now to give them an advantage over all entertainment businesses in Kansas, by allowing horse and dog tracks to have a monopoly on certain industry. This would effect thousands of businesses throughout the state of Kansas. Any other business has to live with their bad business decisions. (Attachment 8)

Representative Franklin moved and Representative Cox seconded bill introduction that would regulate traffic concerning certain equipment. The motion carried.

Representative Mays moved and Representative Cox seconded the introduction of a bill concerning microbreweries; amending K.S.A. 1996 Supp. 41-308b and repealing existing sections. The motion carried.

The meeting adjourned at 3:05 p.m.

The next meeting is scheduled for February 26, 1997.

FEDERAL & STATE AFFAIRS COMMITTEE

DATE: 2/25

NAME	REPRESENTING
Frances Wood	Churches of the Nazarene in Kansas Worship Christian Singers Union of Kansas
Beaul Kramer	Self
Kave Gordon	MT Pleasant Community Church, Lyndon
Bethie Thompson	Stand up for Kansas
Gene Thompson	" " "
Dave Schneider	Kansas For Life At The Best
Leigh Anne Hooten	Division of Budget
Dan Hamer	Visitor
Jim Edwards	KCCT
Ashley Sherard	O.P. Kansas
Pam Ekins	Kansas Lottery
Jami Boyles	Intern
L Robins	Kansas Club Assoc.
E. J. Warner	Moose Lodge 555
Heather Randall	Whitney Samson, P.A.
Steve Black	Hubbell + Assoc.
Patrick Hurley	OTCA
Suzanne Paxson	Amer. Environmental
Lisa Cize	Wichita Greyhound Charities
Mike Polzig	KAMO A - Wg Music Co
Mark Blum	KAMO A - UNITED DISTRIBUTORS INC
Home Mory	KAMO A Automatic Music WICHITA KS
Sue Ann Halliday	KAMO A C.M. Distributors
Ginny Davenport	KAMO A CM DISTRIBUTORS
Jeff Rutland	Ks. Horse Racing Industry - KQHRA
W. Roy BERGER	Wichita Greyhound Park, Inc.
J. P. SMALL	KS QUARTER HORSE RACE, INC.
Joan Mackham	St. Francis Hospital
Opal Berlin	St. Francis Hospital

Date: February 20, 1997

To: House Federal and State Affairs Committee

From: Jeff Rutland
Route 1, Box 41
Independence, Ks. 67301
(316) 331-2485

RE: Support of HB 2174

Dear Chairman Boston and Committee Members:

I have testified at a number of hearings, explaining the dramatic effect that gaming, or the lack of it, would have on horse breeders of the state such as myself. While I realize that you must hear the concerns of many individuals to make a rational judgment, I would like to offer a somewhat broader picture.

The horse and greyhound racing and breeding industry in Kansas ranks in the top 15 in the nation as a leader of producing top quality racing animals. We do pump well over \$200 million into our state's economy annually. We are truly an important industry of Kansas. Horse and greyhound racing is a business, a big business, an ever changing business (as most are in today's economic battle). What business can say that they don't need to change with the times? While it may seem simple for a CEO to call a board meeting and decide that time has come for a change of marketing schemes, racing doesn't have that luxury. We are a very tightly regulated industry by the state, and rightfully so. But when it comes time for a needed change, it also turns into a complicated decision that our lawmakers must help make. The time has indeed come. Racing needs a change, not just in Kansas, but all over the country. Every state with racing is being faced with the same obstacles of one stage or another. Kentucky, our nation's tradition of horse racing, is even being faced with the challenge that the riverboats on the Ohio River are giving, and gaming legislation is being proposed there. Kansas just happens to be in a much more advanced stage of adversity. Today, in 23 states, some form of gaming other than pari-mutuel is legal. This number grows annually. It's not a matter of "IF" this added gaming is coming, the question seems to be "WHEN". Will it come soon enough to save a major part of our agricultural economy? Will it come at a time that will allow us to structure a system that will help the people of our state? Will it allow Kansans to help Kansans? I certainly hope so.

A key point which I hope that this committee will keep in mind, is that this is not simply an issue to quote "save the race tracks". A bill has been presented to you that we feel will help "save the entire industry". We, as producers, as well as the racetracks need to survive in order to have a viable industry. The Woodlands is our department store where we sell our goods. Without it, we

Fed+State
2-25-96
Atch #1

have no need to produce our product. The trickle down effect from the production and use of our product truly does effect a large number of citizens in a very positive manner.

While people have given testimony of the negative social impact that they feel additional gaming could bring, we've not looked at what we all have taken for granted, that is the positive social aspects that racing has touched our lives with. For just a minute, push yourself away from the table as a lawmaker, if you will, and put on your Saturday afternoon shoes. Has the sport of horse racing touched your life in a way that has left a lasting memory with you? Have you ever drank a mint julep on Kentucky Derby Day? Did you watch any of the races last year with the great racehorse Cigar, trying to extend his win streak, with all of the world watching in wonder, "Can he do it again?" The beauty, the pageantry, and the tradition of horse racing is exemplified in watching great horses compete. Have you ever watched, even on television, two gifted athletes giving their all, battling it out down the stretch, neck and neck, to the finish line, each one trying their very best to be champion, even if only for a day? Have you ever seen a picture of Secretariat, Man O' War, Dash For Cash or Easy Jet, true legends to us all? Have you ever been around someone after a race, when they were so happy that their horse had won, that they broke down and cried? Have you ever experienced the love that develops between a horse and a child, both young and old? I ask that you stop and answer these questions for yourself. I dare to say that each and every person in this room has been touched at some time or another by racing, which has left a lasting and enlightening experience in your minds. Are you ready to take away these positives that horse racing has brought to our culture?

I sincerely hope that you realize the ramifications that this issue has on our lives and offer an appropriate solution. My father was regarded as one of the leading horsemen in the United States for over 30 years, right here in Kansas. I hope and expect to be able to do the same. Don't keep racing from it's needed changes. Be one of the pioneers to tackle these gaming issues in a positive manner to help save a long lived tradition, as well as a large part of our state's economy. Every racing state in America is watching, yes even Kentucky. Let's do it right!

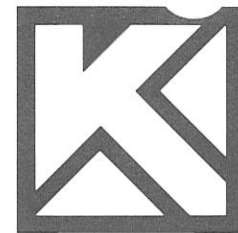
Respectfully,



Jeff Rutland
Owner, Breeder, Trainer
of Quarter Horse and Thoroughbred
Race Horses in Kansas

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry



835 SW Topeka Blvd. Topeka, Kansas 66612-1671 (913) 357-6321 FAX (913) 357-4732
HB 2174

February 20, 1997

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

House Federal and State Affairs Committee

by

Jim Edwards

Director, Chamber & Association Relations

Chairman Boston and members of the Committee:

I thank you for the opportunity to stand before you today to express KCCI's support for HB 2174, a measure which would allow certain lottery games to be played at sites currently offering pari-mutuel wagering on horse and dog racing.

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

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

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

First, let me clearly state KCCI's position as it relates to the issue of electronic games of chance. The position adopted by the KCCI Board of Directors at their December, 1995 meeting states, "The Kansas Chamber of Commerce and Industry supports allowing pari-mutuel facilities in Kansas to operate electronic games of chance." While HB 2174 offers lottery games only and not

Fed & State
2-25-96
Atch #2

el nic games of chance, it would still help address the two concerns that our Board focused on when making their policy decision.

Their first concern was the protection of the capitol investments at the tracks, the jobs held by Kansans, and the taxes derived from both of these. The passage of HB 2174 would help pari-mutuel facilities in Kansas operate on a level playing field with gaming interests in surrounding states...specifically Missouri, and thereby protect the investments and keep people employed. By doing both of these, tax revenues for local units of government as well as the state should continue at at least the existing level with possible increases when attendance grows.

Their second concern was that of protecting the dollars going into the State Gaming Revenues Fund and then into the Economic Development Initiatives Fund (EDIF). Prior to 1986, economic development and job creation efforts in Kansas were very limited. There were plenty of ideas, there was just no way to finance them. This was one of the prime reasons that the Kansas Legislature approved both lottery and pari-mutuel wagering and forwarded them to the state's voters. Since that time, Kansas has been able to compete with other states in this region on the "**creation of new business and expansion on existing business playing field.**" The bottom line is that when the lottery and pari-mutuel are going strong, job recruiting, job retraining and the multitude of other programs that are funded through EDIF will also be strong.

One of the controversies that surfaced last year when a similar measure was introduced in the Senate (SB 754) was that the new lottery games would be limited exclusively to the pari-mutuel facilities. I need to draw your attention to the fact that this ***is not*** the case this year and the games developed for use at the pari-mutuel facilities would be available to any lottery retailer.

KCCI joins forces with those that are asking for your approval of this issue. We respectfully request that you give your support to HB 2174.

Thank you for the opportunity to appear before you today and I would be happy to stand for questions.



Citizens for Stable Economic Growth and Quality of Life in Kansas

P.O. Box 780127 ♦ Wichita, KS 67278 ♦ (316) 634-2674

**Testimony To House Federal and State Affairs Committee
on
House Bill 2174**

by
Glenn O. Thompson
Chairman, Stand Up For Kansas
February 20, 1997

Good afternoon Chairman Boston and other members of this committee. Thank you for this opportunity to speak at this public hearing.

As most of you know, Stand Up For Kansas is a state-wide coalition of grassroots citizens who believe that expanding legalized gambling in Kansas would have an adverse impact on the quality of life of families, businesses, and communities throughout the state. **We strongly oppose House Bill 2174 since it would remove the current prohibitions on certain casino machines, not only at racetracks but at lottery retailers across the state.**

In 1994 the Kansas Supreme Court stated unanimously that **“casino gambling is unlawful even if the term lottery is construed broadly.”** (Stephan vs. Finney, January 27, 1994).

In addition, the Attorney General stated in Opinion 92-125:

- 1. On-line lottery terminals are permissible only when used to produce lottery tickets or to monitor lottery performance,**
- 2. Player-operated lottery machines with one-on-one play interaction between the player and the television display or the player and the terminal are prohibited, and**

Feds State
2-25
Atch #3

3. Slot machines are prohibited.

Two new definitions in the bill for “**on-line equipment**” and “**central computer**” eliminate these prohibitions, opening the door for player-operated casino machines.

On-line equipment is defined as “any commission approved terminal, or associated equipment, that is connected to a central computer **for any purpose** described in rules and regulations of the commission, including but not limited to security, monitoring, auditing and execution of activation and disable programs. On-line equipment may be equipped with one or more video display monitors.”

“**Central computer**” is defined as “any computer equipment operated by the lottery to which on-line lottery game equipment communicates **for any purpose** described in rules and regulations of the commission.”

Consequently, House Bill 2174 would eliminate all prohibitions on player-operated casino machines, such as slot machines and video lottery machines, if each machine is connected **for any purpose** to an on-line central computer operated by the lottery.

Proponents have said, on several occasions, the bill prohibits slot machines. In our opinion, this is simply not correct. Although the wording is ambiguous, it appears that **the only prohibited slot machine is one controlled by an internal computer, within the machine** (normally referred to as a “stand alone” machine).

Statutes related to gambling prohibitions should address machine function, not machine design. Why should a legislator (or a player for that matter) care whether the computer for a slot machine is located in the terminal or “on-line” in another room? **Including “window dressing” prohibitions based on a specific hardware design is simply a method for including loopholes in a bill.**

Video lottery machines are extremely addictive, no matter where the computer is located, because of the fast action and instant, or near instant, gratification. In fact, they are often

called the "crack cocaine of gambling." In 1993, the Nova Scotia government directed that 2500 of the 3500 video lottery machines be removed from stores, bowling alleys and gas stations **because of adults and children becoming addicted to the machines.** ("US Turns To Betting As Budget Fix," Boston Globe, Sept. 26, 1993)

The racetrack lottery machine shown in the attached picture is obviously designed around video lottery terminals. The machine will be extremely addictive, just like other video lottery machines, **no matter where the computer is located.**

Gus Mijalis and I attended the same high school in Shreveport, Louisiana. He was sharp, outgoing and an excellent student. We were in several math classes together, where he usually made straight A's. Everyone knew Gus would someday make a big name for himself. Well, he did, but not the name most people expected. **Gus is now a felon.** Last year, he was convicted of bribery and fraud and is now serving time in a federal prison. As a close friend of Governor Edwards, he got mixed up with the Louisiana casino crowd and **couldn't resist the big money payoffs offered by the casino industry.**

Prohibitions on player-operated casino machines have been placed in the Kansas Lottery Act because of lessons learned by other states. Removing these prohibitions would be irresponsible!

Again, we urge you to vote no on HB 2174.

Thank you.

All the Thrills of the Track are Brought to Your Casino

A maximum of 23 satellites can fill your casino with non-stop racing action.

The free standing satellites allow you to creatively set-up your location for increased earning power.

Royal Ascot Special's free track system allows the horses to compete against each other in the most realistic fashion.

Royal Ascot Special is compatible with a variety of on-line systems.

The graphics on the two 50" monitor screens enhance the excitement of the action on the track.

Races run every 2 minutes with 16 million possible combinations.



House Federal & State Affairs Committee
February 20, 1997

Testimony on House Bill No. 2174

Dave Schneider
President, Kansans For
Life At Its Best

"Kansans do not want wide-open gambling here. They do not want the crime and corruption that comes with gambling, and they do not want the government graft and corruption that comes with gambling."

-- Rep. Bob Miller

(Lew Ferguson, "Senators propose ban on casino gambling", Topeka Capital-Journal, January 24, 1992.)

Chairman Boston, members of the committee, my name is Dave Schneider, and I serve as president of Kansans For Life At Its Best. We are opposed to House Bill No. 2174 for a wide variety of reasons, but this afternoon I'd like to focus on some public policy questions which this bill raises.

1. Since we have a system of representative self-government, this proposal for a partnership between the state and the tracks via this "racetrack lottery" -- which we believe is a flanking maneuver to allow the tracks to have casino gambling -- is in fact a proposal for a partnership between the people of Kansas and the parimutuel racetracks in the casino gambling business.

But, given that there is a significant percentage of the population which is opposed to casino gambling, is it wise public policy to force them into a partnership in the casino business?

2. Is it the proper role of government to go into the casino gambling business?

3. Isn't there an inherent conflict of interest for the state in this proposal? The state would move from being regulators of the tracks to becoming partners with them in the casino gambling business. And if Mr. Grace does take over the Woodlands, we'd be in the interesting situation where we'd be partners in a business venture not only with the owner of a parimutuel track which we are supposed to be regulating, but also partners with the manager of an Indian casino.

4. In addition, isn't there a public policy question of whether it is wise for the state to proceed into the casino gambling business when we all recognize that the people of Kansas in 1986 never

Fed + State
2-25-97
Atch #4

intended for the state to go into the casino gambling business via the constitutional amendment approving a state-owned and operated lottery?

"I honestly believe that the Kansas voters in 1986 had no idea they were voting some kind of language into the constitution that would permit casino gambling."

-- Sen. Dick Bond

Lew Ferguson, "Senators propose ban on casino gambling", Topeka Capital-Journal, January 24, 1992.

5. Finally, we appeal to you -- especially in light of today's newspaper reports about allegations of illegal gambling at the Woodlands -- to examine closely who our prospective partners are. They are coming to us with a proposal which by their own admission will benefit them tremendously. We think you, as representatives of the people of Kansas, should at least require them to be completely forthcoming about a number of issues, "including but not limited to:"

- A full and complete history of their relationship with one of our former public servants, Attorney General Bob Stephan. According to a Kansas Supreme Court case from 1989, *Kansas Racing Management, Inc. v. Kansas Racing Comm'n*, 244 Kan. 343, R.D. Hubbard, former principal shareholder of the Woodlands and now CEO of Hollywood Park, the parent company of the Woodlands, had a "personal and business relationship with the attorney general". What were the particulars of this relationship?
- Criminal records of all track employees and all those on "the backside." According to a 1992 Kansas City Star newspaper report, Dana Nelson, former executive director of the Kansas Racing Commission, in defending his relationship and dealings with a certain Dean Hansen, stated:

"This guy's no saint, but he's not an ax murderer either. You could find 50 people on the backside (of The Woodlands) who have similar reputations and records as Hansen does."

According to the report, Hansen was "a thoroughbred owner once convicted of felony cattle theft". It was also reported that "racing officials in other states had fined or suspended him four times between 1977 and 1987. The violations ranged from possessing prohibited drugs and hypodermic needles to theft of racetrack materials...Hansen also has a lengthy record of arrests on other charges, but his lawyer said all those charges eventually were dropped or Hansen was found not guilty." (Joe Stephens, "Top regulator of racing being investigated," The Kansas City Star, October 25, 1992.)

So who are these folks that the parimutuel tracks have attracted to our fair state?

Testimony to House Federal and State Affairs Committee
on
House Bill 2174

by
Frances I. Wood
February 20, 1997

Chairman Boston and
Members of the House Federal and State Affairs Committee

I am Frances Wood, volunteer representative of the the Woman's Christian Temperance Union of Kansas and Churches of the Nazarene in Kansas. I emphasize volunteer because I am not paid to be here to express my views. I am here because I believe expanding gambling would be a detriment to our state and the families of Kansas.

Several weeks ago was the first time I heard the acronym KRACE. Since then I have thought about agriculture, charities and employment in connection with gambling. I feel it is too bad the breeding industry couldn't be content with raising show horses and show dogs. Having been a member of a Saddle Club that performed at horse shows, I am personally aware of the enjoyment that can bring about. I also realize it is the money factor that is motivating the breeders. I suggest they need to go back to raising useful crops and animals.

It was a clever move for the lottery proponets to tie charities to the gambling industry. Its pretty touching for the "Make a Wish" and other charities to present their case - hoping for more gamblers to increase their portion. However, is it right to create more victims that need charities to benefit the existing ones?

And now to employment - John Stossel of ABC's 20/20 on Friday, the 21st. talked about the "broken window theory" - where you throw a rock into a window in order to create jobs to fix the window. I believe HB 2174 has a "Broken window theory" in relation to employment. This is an industry that has a downside. People end up on welfare and in the criminal justice system. We have businesses that are negatively impacted.

Another thought on employment. What happens to the facilities and employees if, in 2002, the lottery is sunsetted. It will have to be voted on again before 2002 and the elected representatives might just have the fortitude, by then, to vote gambling out.

One of our conferees will speak on funding for the compulsive gambler. I'm all for assessing the gambling industry for treatment centers. However, I would like to think by voting "NO" on this bill we are building a fence at the top of the cliff. This would keep people from falling over the cliff so that an ambulance would not be needed at the bottom of the cliff.

I thank you for consideration of these views and urge you in this committee to vote "NO" on HB 2174.

Fed. State
2-25-97
Atch #5

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

RE: HB 2174

February 25, 1997

by: Rebecca Rice, Legislative Counsel
Kansas Coalition for Gaming Equity

Thank you, Mr. Chairman, and members of the committee. My name is Rebecca Rice and I appear before you today on behalf of the Kansas Coalition for Gaming Equity. We appear in opposition to HB 2174.

The Kansas Coalition for Gaming Equity is a coalition formed by Kansas Clubs and Associates and the Kansas Amusement and Music Owners Association. The coalition was formed for the purpose of presenting a united front to the Legislature regarding the racetracks continuing efforts to obtain a monopoly on future entertainment revenues.

We are opposed to HB 2174 because it creates a new class of lottery retailer providing significant financial advantage to one kind of business to the exclusion of all others for no apparent reason. The Coalition continues to oppose any legislation which is designed to give an economic advantage to one type of entertainment business to the detriment of all others.

It is my understanding that nothing in current law prohibits the racetracks from being the same type of lottery retailers as everyone else. Past lottery bills have been presented as "just allowing the racetracks to play the same lottery games that are being played all over Kansas now." I can't tell by reading this bill if these are the same games that are being played at lottery retail outlets now or not. If they are the same games, no change needs to occur. Current law lets the racetracks choose to become lottery retailers under the same rules as everyone else.

Clearly, you could decide to earmark all gambling/lottery revenue currently deposited in the gambling revenue fund for the "funds" established in the bill. This would enhance "purse pools" at racetrack facilities without creating two classes of lottery retailers. It would require diverting EDIF funds from the traditional corporate purposes to greyhound and horse economic development purposes. However, if the racing industry is so important to the future of Kansas then you might consider less radical legislation which redistributes EDIF funds. Such redistribution would be a stable source for funding the pools, unlike the late Senate legislation of last year which was a one-time transfer from the general fund.

I have provided information in the past regarding the detrimental effect full monopoly casinos have on surrounding businesses. I will not take the committee's time revisiting that information.

I would ask the committee to review certain portions of the bill with me:

- *Definitions/pages 2, 3 and 4:* I am unable to determine what type of game will be played under Sec. 2(t) considering the prohibition of those games/machines defined under Sec.2 (z) *Slot machine* and Sec. 2(dd) *video lottery machine*. I have asked my members to describe for me the games allowed under subsection (t). They also are unable to determine the types of machines to be used. Their

Fed & State
2-25-97
Atch # 6

speculation would lead me to think that we may all be unpleasantly surprised at what the tracks' new games look like and how they are played. I would suggest the committee define in some manner the exact types of games/machines intended under this legislation.

- *New Section 3*: The Lottery's executive director can enter into contracts with racetrack licensees with the approval of the racing commission which must determine the new agreements are "in the best interest of the racing industry." Please keep that phrase in mind when reviewing the balance of the bill. The "best interest of the racing industry" is not necessarily the same as "in the best interests of live racing at Kansas racetrack facilities."
- *Racetrack lottery retailer locations* [Sec. 2(v)]: This definition only states that the new retailers are authorized to sell lottery tickets at those locations specified pursuant to a contract. In reviewing the balance of the bill, I can not find any requirement that the machines only be placed in, or contiguous to, the racetrack facility - nor do I find any limit on the number of locations. This is not corrected by New Section 3 which only places limits upon those lottery games operated at a racetrack facility. New Section 3 may imply but does not, in fact, limit racetrack lottery games to be operated at the racetrack facility. You may or may not care where the new machines are located. However, we would not want Johnson County legislators to be surprised if the Lottery contracts with the licensees to locate these machines (whatever form the machines and games become) at I-435 & Metcalf. Due to the probable volume of business, the new revenue alone would probably make such location "in the best interests of the racing industry."

If this committee decides to include all lottery retailers, we would strongly suggest reviewing our outline from last year containing certain safeguards to prevent the state from having a slot machine on every corner and to safeguard against illegal activity. Of primary concern, is that this legislation does not address a maximum number of machines per square foot and a maximum number per location. We would also suggest a limit be placed on the hours of operation and a maximum betting limit be established. We strongly disagree with the Governor's assertion of last year that the integrity of the operation is less likely to be breached at a few mega-facilities handling huge sums of cash on a daily basis. We maintain that a few games/machines run by local business owners throughout the state (like the current Lottery operation) minimizes the opportunity and the incentive to embezzle from the gambling operation.

- *New Section 5*: As you may recall, our organization provided alternative legislation to your 1995 interim committee to allow many lottery retailers to participate in any expanded gambling. Unfortunately, the racetracks have only adopted our *purse pool* idea and have continually rejected the idea of sharing their new games and machines with anyone else. This bill creates a *breed and purse fund* but does not define "purse supplements" or "awards to owners". Although everyone in this audience may think we all know what is intended by that language, everyone in Missouri thought they knew what the term "riverboat" meant when Missouri approved casinos.

We would strongly suggest the Legislature determine the percentage breakdown between the purse enhancement and the Kansas breed fund. This legislation allows the Kansas racing commission to make the determination on how the funds will be apportioned. Again, if the problem with parimutuel popularity is the small purses, we need to ensure sufficient funds are being placed in the purse enhancements. If the problem is actually that the Kansas public is simply not interested in parimutuel racing anymore, perhaps we should allow the free market system to operate and not prop up an industry by artificial means.

Apparently, the different private breed associations have programs to award those owners who have Kansas bred horses and dogs. We believe the Legislature should codify those programs with any necessary modifications so that you can ensure tax dollars are being spent in the manner you intend. This money does not belong to the associations but belongs to the State just as all other lottery revenue. We would also suggest that sub part (b) require that the person designated by the executive director to approve vouchers for payment be limited to either a racing commission staff member or a member of the racing commission.

We would also remind the committee of the legislation adopted last year reducing the requirements of for live racing. Specifically, the racing commission is now permitted, but no longer required, to revoke a license if the live racing days are not conducted. Additionally, the requirements to conduct live races were reduced in some situations. Although this legislation appears to require certain minimum live racing requirements, we would caution that, when taken with the balance of the pari-mutual laws, a great deal of flexibility regarding live racing requirements is allowed.

We would also strongly suggest an amendment requiring that any contract entered into pursuant to this legislation is voided if any of the conditions of the contract or this legislation are not met. As the racing commission has previously demonstrated, statutory requirements can be ignored for the purpose of allowing a racetrack to keep its license and racing operation.

Although this may seem like micro-managing, we would suggest that these statutes must be tightly written to provide the structure for the racing commission as its membership changes under different administrations. Despite the assertions by the Greyhound Association, this Legislature is not regulating the Greyhound industry but is regulating the Gambling industry. If the dogs are not run in races where bets are placed, no regulation occurs. Micro-managing the Gambling industry is essential to protect the Kansas public.

- The fiscal note for this bill only addresses the costs and receipts to the Kansas lottery. The fiscal note anticipates a loss of revenue to the state lottery due to the adverse impact on current lottery games. However, it does not address the loss of revenue to the state from potential loss of liquor sales tax revenues, sales tax revenue, property tax revenue and income tax revenue from the loss of business to other entertainment venues which will realize at best a decrease in business income and, in many cases, will simply not remain viable. SRS was apparently not consulted as to the

department's anticipation of the potential increased demand for social services which are readily acknowledged by the proponents as a potential state cost if casino style gambling for the racetracks is approved by this Legislature.

The issue of expanded gambling is becoming increasingly difficult and emotional for those of us who have been involved in it from the beginning. It has harmed many long-time relationships in the Capitol and between Legislator and constituent. This is an issue where the individuals are almost never allowed to be separate from the issue.

I hope this Legislature makes a clear and early determination on the issue of special privileges for racetracks and that we can then put it behind us forever, regardless of your decision. We hope this issue will not be drawn out from now to the end of the session as has been done these past several years. Working racetrack gambling bills over and over until the end of the session breeds poorly written legislation and bad decisions made under undue pressure.

Thank you for your attention, Mr. Chairman and for allowing me to testify in opposition to this legislation.

Lester L. Lawson

Owner
Reich's Club
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To: Members of the House Federal and State Affairs Committee

Re: House Bill 2174

Good afternoon, Mr. Chairman and committee members. My name is Lester Lawson. I am president of the Kansas Clubs and Associates, but I am speaking primarily as a Kansas Lottery retailer.

I hope the committee will seriously consider the effects of the bill under discussion. I am afraid it may well create two classes of lottery retailers in Kansas

The racetracks have said all they have wanted was for the games that are currently legal and being played in Kansas to help make the racetracks more profitable. After reading House Bill #2174, it appears that the racetracks also want millions that the state makes on the Lottery, nothing resembling the 5 % commission the retailers make.

Why do we need two kinds of Kansas lotteries, one for the State and one for the racetracks?

Before you decide on HB #2174, I would ask you to read it carefully and answer these questions:

- 1) How much money will the racetrack lottery subtract from the current Kansas lottery?
- 2) How many racetrack lottery locations will there be? Where will they be located?

Fede State
2-25-97
Atch #7

3) How much money will the state receive from the racetrack lotteries?

4) What is a video lottery machine as described by this bill? How will the racetrack lottery make use of such machines? Will the Kansas lottery's definition of keno allow for keno to be played on video machines? If so, how many video machines do you foresee and where will they be located throughout the state?

5) How many hours per day and how many days per week will the racetrack lottery retailers be open?

6) How can the lottery retailers compete with the racetrack lottery retailers if the payouts are not equal? For example, Kansas lottery keno pays \$400 for five numbers. Suppose the racetrack lottery pays \$1000 for five numbers? Then where will the people play? And how will charitable organizations compete with racetrack bingo with its larger payoffs?

7) Will the racetrack lottery be allowed to simulcast and take bets on out-of-state races in off-track lottery locations?

Nineteen hundred plus lottery retailers have helped make the Kansas lottery a success. We have supported the lottery for several years and have generated revenue for the state of Kansas. Why sabotage the current system which works? We need equal rules for everyone.

Thank you for your consideration.

Sincerely yours,

Lester L. Lawson

**Testimony of Homer Morgan
Owner, Automatic Music Co.
Wichita, Kansas
February 20, 1997**

Mr. Chairman, Honorable Committee members,

My name is Homer Morgan. I am the owner of Automatic Music, Co in Wichita, Kansas. I have been a life long resident of Kansas and have been in this business for 34 years. I have seen many changes over the years.

I am here today to present my views and opposition to open slots in the state of Kansas. You have been asked to decide on if one business should have a monopoly on gambling and the entertainment business of Kansas.

It is my belief that gambling does effect every citizen of Kansas, more bad than good. In other states where random gambling has been allowed, compulsive gamblers sacrifice their family values for the cheap thrill of slot machines and casinos.

A small amount of revenue earnings go back into the state of Kanas, but most go to out of state investors who only know Kansas as a cash revenue source. These out of state investors who have made bad business decisions are asking you now to give them an advantage over all entertainment businesses in Kansas, by allowing horse and dog tracks to have a monopoly on certain industry.

I have talked to several small business owners in Iowa who have suffered from the decision in their state to allow slots. This would effect thousands of businesses through out the state of Kansas. A bail out is what they are asking for. Any other business, such as mine, when a bad business decision is made I have to live with it, so should outside investors which have invested in the horse and dog tracks.

Fed. State
2-25-97
Atch #8

Who would benefit if you allow horse and dog tracks to have a monopoly on slots or other gambling devices? Definitely not the thousands of small businesses and the citizens of Kansas. The racing industry is quoting the number of jobs that will be lost if they go out of business, but no where do they mention the number of jobs that would be sacrificed by small Kansas businesses if they are allowed such a luxury. The employment of other entertainment businesses in Kansas far exceeds the jobs created by the horse and dog tracks.

The entertainment businesses, such as, restaurants, bowling alleys, theaters, clubs, etc. would all suffer. We are all proud of our colleges and universities with their out-standing athletic programs, which are rated among the highest in the nation, Kansas is well known for our great outdoor recreation parks and activities, such as hunting, fishing, boating and camping. These are all assets we can be proud of. All of these things would suffer from limited resources for the entertainment dollar.

We should be working together to benefit all Kansas residents, not just a select few and out of state investors.

Please think first of the residents and small businesses of Kansas.

Thank you,



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