

Approved: 4-8-98
Date

MINUTES OF THE SENATE COMMITTEE ON FEDERAL AND STATE AFFAIRS.

The meeting was called to order by Senator Lana Oleen at 11:35 a.m. on April 2, 1998, in Room 254-E of the Capitol.

All members were present except:

Senator Keith Schraad - excused
Senator Ben Vidricksen - excused

Committee staff present: Mary Galligan, Legislative Research Department
Robin Kempf, Legislative Research Department
Theresa Kiernan, Revisor of Statutes
Midge Donohue, Committee Secretary

Conferees appearing before the committee:

Barbara J. Hinton, Legislative Post Auditor
Les Borgmeyer, Vice President and Sales Manager, Bingo Systems and Supply, Inc., Columbia, Missouri
Charles M. Yunker, State Adjutant, Kansas American Legion
Phil Wilkes, Department of Revenue

Others attending: See attached list

Staff briefed the committee on **SB 692**, concerning bingo, which would amend the current bingo law. It was explained the bill would provide for bingo faces to replace bingo cards and shift collection of taxes from the licensee to the distributor. The proposed tax rate change to .4 cent was discussed, along with the proposed policy change which would provide for the secretary of revenue to require unique identification of each sheet of the bingo face to insure compliance with the provisions of the act. Staff advised that the bill would also provide for each package of bingo faces sold or distributed to licensees to be accompanied by a printed statement containing specific information.

Senator Oleen told the committee that **SB 692** had been prompted by a performance audit by the Division of Legislative Post Audit on regulatory activities of the Division of Alcoholic Beverage Control (ABC). That report had been reviewed before the committee on March 25.

The hearing was opened on:

SB 692 **An act concerning bingo; relating to the regulation thereof; imposing a tax on the distribution of bingo faces**

Barbara Hinton, Legislative Post Auditor, spoke in support of the bill (Attachment #1). She explained that the bill would require the 17 call bingo card distributors licensed in Kansas to collect and remit the taxes owed. Currently, this is done by more than five hundred licensed bingo operators in the state. Under the current system, she said no one could tell whether the state is receiving all the bingo taxes owed, and the bill would address several problems identified in the performance audit of the ABC. Ms. Hinton discussed those problems and said the bill would create a more efficient way to collect bingo taxes and ensure that taxes collected on call bingo are paid to the state.

Mr. Les Borgmeyer, Sales Manager for Bingo Systems and Supply, Inc., Columbia, Missouri, with offices in Salina, told the committee he had initially intended to speak in support of **SB 692** but had learned just prior to the committee meeting that the bill would increase the tax rate on bingo faces (Attachment #2). In view of that, he said he opposed **SB 692**.

Senator Oleen assured Mr. Borgmeyer it was not the intent of the bill to increase taxes, but only to collect those taxes owed. She told Mr. Borgmeyer it might be helpful to see the bingo card and faces that would be discussed before he continued with his testimony, and she asked Mr. Phil Wilkes of the Bingo Division of the ABC to show the committee the type of bingo card and bingo faces that are available.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FEDERAL AND STATE AFFAIRS, Room 254-E,
Statehouse, at 11:35 a.m., April 2, 1998

Mr. Wilkes demonstrated the bingo card and provided samples of the various bingo faces used in bingo games. He explained how bingo games are conducted and the variation in the number of faces played. Mr. Wilkes showed samples of instant tickets or pull tabs which he said could only be sold by the licensee during the time bingo is being played. He told the committee pull tabs are taxed at the wholesale or distributor level. Mr. Wilkes discussed the proposed tax rate on bingo faces and explained how the .4 cents was arrived at by staff in drafting the bill. It was explained that licensees would still be required to calculate receipts and file a sales tax return. He stated that, if sales tax was eliminated, it would result in an annual loss of \$2 million in revenue and a \$1/2 million loss annually to local cities and counties.

Mr. Borgmeyer resumed his testimony. He provided background information on his company, saying it supports charitable gaming in Kansas which allows organizations to raise funds for worthwhile projects in their communities. Mr. Borgmeyer told the committee that charitable gaming suffered because monies previously donated to worthwhile causes are no longer available because bingo proceeds have diminished with the growth of casinos and state lotteries. He proposed changes in the law, i.e. extended times to sell pull tabs, reduction of taxes on charitable gaming and less paperwork, which would allow licensees to compete in the gaming arena in Kansas. Mr. Borgmeyer discussed additional proposed amendments which are detailed in his written testimony. He asked the committee to review the proposals and work to ensure that charities in Kansas are able to continue their good work.

Charles M. Yunker, State Adjutant of the Kansas American Legion, spoke in opposition to **SB 692 (Attachment #3)**. He said there have been no examples given of failure to pay taxes due on bingo games. Mr. Yunker discussed the proposed tax rate increase on bingo faces, saying it is too high and double what Missouri currently has. He pointed out that the enforcement tax is in addition to sales tax in Kansas, and he questioned the necessity to continue to report gross receipts if the tax is prepaid at the distributor level. His main objection to the bill was the provision that would discontinue bingo cards. Among the reasons he listed for objecting to bingo faces were expense, storage and environmental considerations.

Mr. Yunker told the committee that several alleged violations of the bingo laws had been reported but no enforcement action had been taken. He did not have specific knowledge of the alleged violations, and Senator Oleen asked him to obtain this information.

Mr. Yunker said **SB 692** would raise taxes and hurt the non-profit organizations who conduct bingo. On behalf of the Kansas American Legion, the Kansas Sunflower Club Association and its member organizations, Mr. Yunker urged the committee to report the bill unfavorably.

Senator Oleen again explained the purpose of the bill, saying it was not the intent to cause damage to non-profit groups but was to ensure that the letter of the law is followed in the collection of taxes that are owed.

At the request of a committee member for information on how other states deal with the issue of hard cards, the chair asked ABC to determine how this is handled and report back to the committee.

The meeting adjourned at 12:45 p.m. The next meeting is scheduled for April 8, 1998.

**TESTIMONY BEFORE THE
SENATE FEDERAL AND STATE AFFAIRS COMMITTEE
SENATE BILL 692**

**Barb Hinton, Legislative Post Auditor
April 2, 1998 11 a.m. Room 254-E**

Madame Chairman and Members of the Committee:

Thank you for giving me the opportunity to speak before you on Senate Bill 692, which would require the 17 call bingo card distributors licensed in Kansas to collect and remit the taxes owed to the State. Currently, this is done by the 500+ licensed bingo operators in Kansas.

As you may remember, we recommended such a bill in our recent audit reviewing liquor and bingo regulation, which we presented to this Committee last week. The bottom line relating to bingo was that, under the current system, no one can tell whether the State is receiving all the bingo taxes owed. Bingo is a cash business, and other states we contacted told us they've had big problems with revenues being underreported to avoid paying taxes.

We think this bill will address several of the problems we identified in that audit:

- *it would take away the current incentive for bingo operators to underreport their revenues*
- *it would take the onus for collecting and remitting taxes off bingo operators. Many of these operators are small organizations that lack the ability to keep sophisticated records*
- *it would make distributors responsible for collecting and remitting all bingo taxes. Distributors already are responsible for collecting and remitting taxes on the sale of instant bingo cards.*
- *it would allow the Department to focus its limited audit resources on a smaller number of businesses (17 compared with 500+)*

In sum, we think this bill would create a more efficient way of collecting bingo taxes, and of ensuring that the taxes collected on call bingo are paid to the State. If the current system isn't changed, the Department of Revenue won't be able to determine if all taxes owed to the State have been paid unless it requires bingo operators to keep more sophisticated records, and conducts more audits and inspections of those operators' records and activities.

I would be happy to try to answer any questions you may have on this bill.

Sen. Federal & State Affairs Comm.
Date: 4-2-98
Attachment: #1

Comments regarding Senate Bill 692

From: Les Borgmeyer, Sales Manager for Bingo Systems and Supply, Inc.

Testimony in support of Senate Bill 692 with amendments.

We are currently licensed to sell bingo supplies in Kansas with an office in Salina, Kansas. We provide Charitable Gaming supplies to charities across states in the Midwest.

We support Charitable Gaming in Kansas, which allows organizations to raise funds for worthwhile projects in their community. Today, I come forward as a representative of our company and on behalf of our many customers to support Senate Bill 692, if amendments are made, which can ensure Charitable Gaming as a method of fund raising is allowed to survive.

Charitable Gaming is under attack! In recent years with the growth of Indian casinos, river boat casinos and state lotteries, charities have suffered. Monies that previously were donated to worthwhile causes in all communities are no longer available because bingo proceeds have diminished.

In order to compete in the gaming arena of the State of Kansas, changes need to be made. Some of these changes suggested are to allow extended times to sell pull tabs, to reduce taxes on charitable gaming and to require less paperwork for the groups.

In addition, for distributors, the bill should be fair and paperwork requirements should be standard to what is expected in other states. Therefore, we offer the following amendments:

Page 4, Line 30. This amendment will ensure protection and reimbursement to the distributors for collecting and tracking the taxes.

...to the license. **INSERT** *The licensee will be exempt from all other state sales taxes regarding the sales of these bingo faces and instant bingo tickets. The taxes for bingo faces and instant bingo tickets, less two percent of the total amount paid, which may be retained by the distributor if timely filed and paid, shall be paid on a monthly basis to the director of taxation, by each distributor and shall be due on the last day of the month following the month in which the bingo faces or instant bingo tickets were sold, with the date of the sale being the date on the invoice evidencing the sale.*

If a distributor does not receive payment in full from an organization within 30 days of the delivery of bingo faces or instant bingo tickets, the distributor shall notify the director in writing of the delinquency. Upon receipt of the notice of delinquency, the director shall notify all distributors that until further notice from the director, all sales of bingo faces and instant bingo tickets to the delinquent organizations shall be on a cash-only basis. Upon receipt of the notice from the director, no distributor may extend credit to the delinquent organization until such time as the director approves credit sales.

Sen. Federal & State Affairs Comm.

Date: 4-2-98

Attachment: #2

Page 9, Line 18. This amendment increases the revenues to the charitable organizations and to the State of Kansas by providing additional time to sell their products.

DELETE *[No instant bingo ticket shall be sold by a licensee more than one hour prior to the start of the first game of call bingo for the day or after the termination of the last game of call bingo operated or conducted by the licensee for each calendar day.]*

INSERT *Licensees may sell instant bingo tickets at any time only at such locations as registered with the secretary of revenue.*

Page 10, Line 9 This amendment ensures compliance for the State of Kansas without increasing costs for the distributors and charities. Every sheet of bingo paper comes with a unique serial number. The serial number can then be traced back to the licensed Kansas distributor who sold the paper to the bingo licensee. The serial number is then matched with the invoice, either on file with the licensee or the distributor, thus ensuring that the proper tax has been paid on the paper. By putting a unique seal on each bingo face, costs will increase. It will also create an undue burden on the distributor and charities while duplicating a control already in place by listing the serial number on the invoice produced by the distributor.

DELETE *[(2) The secretary shall require, pursuant to rules and regulations, unique identification of each sheet of bingo faces in order to insure compliance with the provisions of this act.]*

INSERT *(2) The secretary shall require, pursuant to rules and regulations, distributors to track the serial numbers of each sheet of bingo faces, or top sheet of bingo books, in order to insure compliance with the provisions of this act.*

Page 10, Line 12. This amendment provides all reasonable safeguards to ensure compliance. By including the serial number of the package on the distributor invoice, the secretary is given a better vehicle in which to ensure tax compliance. By requiring a serial number, you then eliminate the need for placing an expensive seal on each face. The manufacturers logo is not necessary to ensure tax compliance; by requiring the licensee to provide proof through a copy of an invoice, you will ensure that the licensee is buying from a licensed distributor as well as paying the associated tax. If more than one manufacturer is used by a distributor these will create additional problems.

DELETE *[(3) Each package of bingo faces sold or distributed to licensees shall be accompanied by a printed statement which contains the following information:*

- (A) The number of bingo faces contained in the package;*
- (B) The wholesale cost of each package, including the tax paid;*
- (C) The manufacturers logo;*
- (D) The business name of the distributor;*
- (E) The Kansas bingo license number of the licensee to which the package is sold; and*
- (F) Any other information required by the secretary.]*

INSERT *(3) Each invoice from the distributor to the bingo licensee shall include the following information:*

- (A) *The number of bingo faces contained in each package.*
- (B) *The wholesale cost of each package.*
- (C) *The amount of tax paid on each package.*
- (D) *The business name and license number of the distributor.*
- (E) *The invoice number and date of sale.*
- (F) *The license number and name of licensee.*
- (G) *Destination of shipment.*
- (H) *The serial number of the top sheet of each package of bingo paper.*

My intent today is to provide you with possible amendments that may help to ensure Charitable Gaming in Kansas will survive. On behalf of my company and our many customers I ask that you review these proposals and work to ensure that charities across Kansas are able to continue their good works. Thank you.



2001 CORPORATE PLACE - COLUMBIA, MO 65202 1-800-569-7580
 120 POINT WEST BLVD. - ST. CHARLES, MO 63301 1-800-569-4996
 17501 EAST 40 HWY. - INDEPENDENCE, MO 64055 1-800-589-4992
 317 N. 12TH ST. - SALINA, KS 67401 1-800-896-6719
 996 44th STREET - MARION, IA 52302 1-800-324-3511
 1520 HUDSON DRIVE - POPLAR BLUFF, MO 63901 1-800-214-2464

INVOICE No. - 216214
 Invoice Date - 4/01/98

01 CHARGE SALE

**** COME VISIT US ON THE INTERNET ****
 **** WWW.BINGOSYSTEMS.COM **** Page 1

Sold ST. JOSEPH YOUTH HOCKEY ASSN.
 To % JERRY HAM
 2918 SOUTH 42ND ST.
 ST. JOSEPH MO 64504

Ship ST. JOSEPH YOUTH HOCKEY ASSN.
 To % FIREFIGHTERS HALL (1923)
 4314 S. 40TH ST. **CNT100**
 ST. JOSEPH MO 64503

Customer No. - 1000091-000

Payment Terms - Past due after 20 days
 Payment due on or before 4/21/98
 Salesrep No. - 000301 KNOTT, L
 Entry Date - 3/31/98
 Our Order No. - 49192

Shipped Via - ST. JOSEPH TRUCK 4/1/98
 Special Info. - B-1923

Qty Order	Qty Ship	Qty Faces	Item Number / Description	Price Per	Amount
1	1	5000	103VPEB36 3V PEACH BORDER - 36	20.950 CTN	20.95
900	900	0	MOFACE MISSOURI BINGO FACE TAX	.020 EA	18.00
			SER # 3975848 PEACH		
1	1	0-7FB500.63	.50 FAST BREAK 3920 2 20235	75.000 DL	75.00
3920	3920	0	MO TAX50 MISSOURI 2% GRT .50 TABS	.010 EA	39.20
			SER # 2873859		
9	9	9000	BONANZA 1V BLUE (1-9000)	16.670 EA	150.03
900	900	0	MOFACE MISSOURI BINGO FACE TAX	.020 EA	18.00
			SER # 75993 BLUE		
			THANK YOU FOR YOUR ORDER, LILA.		

ATTN: Les/CHUCK

MO DIST. LIC. NO.: P-1000 • IL DIST. LIC. NO.: BF-175 • KS DIST. LIC. NO.: BD-0028 • IA DIST. LIC. NO.: 4-00-900002-002
 WE MUST HAVE YOUR INVOICE STUB TO PROCESS PAYMENT

----- Taxes -----
 Sales: \$.00 INVOICE AMOUNT ==> \$321.18

TESTIMONY IN OPPOSITION OF
SENATE BILL 692
PRESENTED TO
SENATE FEDERAL AND STATE AFFAIRS
BY CHARLES M. YUNKER, DEPT. ADJUTANT
KANSAS AMERICAN LEGION
APRIL 2, 1998

Thank you for providing me the opportunity to address you today in opposition to Senate Bill 692. My name is Charles Yunker and I am the State Adjutant for the Kansas American Legion. Additionally I serve as the Secretary/Treasurer of the Kansas Sunflower Club Association whose members consist of American Legion and VFW Posts, Moose, Eagles and Elks Lodges, the Shrine, Knights of Columbus and numerous local non profit organizations throughout the state.

Our organizations' opposition to SB 692 is based upon three main issues:

First: On page 4 line 17 the proposed tax rate of four hundredths of a cent is a significant increase over the current 3% which comes at a time when Bingo revenues are down due to increased competition from casinos.

Second: Again on page 4, lines 41, 42, 43 require Bingo licensees to continue to report their gross receipts. If taxes are collected before the Bingo faces are ever sold to Bingo players why would a licensee still be required to report their gross sales?

Third: Although our third objection is mentioned throughout SB 692, it is specifically addressed on page 10, lines 6, 7, and 8 which makes it illegal to conduct Bingo games on reusable cards.

Many of the Kansas Sunflower Club Association members still use durable reusable Bingo cards and do so for several reasons chief of which is the long term cost to the licensee. That is; although traditional reusable cards are initially more expensive to purchase than paper cards, they last a minimum of 5-8 years depending upon care thus their overall cost in the long run is far less expensive when compared to paper Bingo faces.

Please bear in mind many churches, and other small non profit groups only conduct Bingo once or twice a year. To burden those organizations with the task of purchasing disposable paper Bingo faces for their infrequent games will only serve to drive them out of the Bingo business, or tempt them to conduct illegal games with their reusable cards and to cover up their activity by not paying taxes on their receipts.

Storage of disposable paper Bingo faces will also create problems especially for those who conduct infrequent games and organizations who share the same premises. As many as three licenses can be held

at one location such as an American Legion Post, its Auxiliary and the 40 et 8 all three of which are separate organizations thus each conduct Bingo under their individual licenses. Although not required by SB 692, all licensees will need to stock inking markers for use on disposable Bingo faces thus creating more up front investment for licensees and from what I'm told those markers can have a relatively short shelf life.

Not only are disposable paper Bingo faces environmentally unfriendly they can create a fire hazard and are relatively fragile. Further, because the bill does not include a provision to reimburse distributors for the expenses they will incur by collecting taxes for the state, they will simply pass these costs on to Bingo licensees; again hurting revenues already hit hard by casino competition. SB692 will diminish local community services such a Special Olympics; water sports for handicapped, elderly and disadvantaged persons of all ages; it will negatively impact services to those with arthritis and other afflictions; youth programs; meals for shut-ins and other local programs funded by Bingo revenues which are as wide in variety as are the number of Bingo licensees in Kansas.

If a licensee's supply of pre-taxed disposable faces are some how destroyed or damaged in such a manner as to prevent their sale or if a licensee stops their Bingo operation, how is a licensee to recoup the taxes paid? SB 692 does not provide such a provision.

Ladies and gentlemen, years of legal Bingo in Kansas and elsewhere have shown that a certain number of people spend a relatively consistent amount of disposable income on Bingo. The only major influences in these consistent trends occurred when new gaming opportunities such as parimutuel betting, casinos, lotteries and Instant Bingo were made available; only Instant Bingo helped bingo revenue. Thus a tax increase only serves to take away funds from local programs which benefit our communities.

Again thank you for providing me the opportunity to speak in opposition to SB 692. Although the idea of collecting taxes from fewer entities is attractive, SB 692 raises taxes thus hurts non profit organizations who conduct Bingo, yet maintains the same reports currently required and will inadvertently raise the cost of doing business especially to small Bingo operations. Therefore on behalf of The Kansas American Legion, the Kansas Sunflower Club Association and its member organizations I urge you to vote no on SB 692.