

MINUTES OF THE SENATE FEDERAL AND STATE AFFAIRS COMMITTEE.

The meeting was called to order by Chairperson Senator Nancey Harrington at 10:30 a.m. on January 22, 2002 in Room 245-N of the Capitol.

All members were present.

Committee staff present:      Russell Mills, Legislative Research Department  
   Dennis Hodgins, Legislative Research Department  
   Theresa Kiernan, Office of the Revisor  
   Nikki Kraus, Committee Secretary

Conferees appearing before the committee:    Ed Van Petten, Executive Director of the Kansas Lottery

Others attending:            Please see attached

Chairperson Harrington started the meeting by asking if the committee or audience had any bill introductions. Theresa Kiernan, Office of the Revisor, introduced three bills. She stated that the first bill would authorize the consumption of alcoholic liquor on the fair grounds. She stated that it is currently authorized on a limited basis but that it would give the fair board the authority to establish by rules and regulations policies governing consumption of alcoholic beverages year-round. She stated that the second bill was Senator Barnett's keg registration bill. She stated that it was a re-cut of a bill from last year which had been worked on with members of the industry. Chairperson Harrington stated that the committee would let Senator Barnett speak further about the bill. Ms. Kiernan stated that the third bill up for introduction concerned the executive director of the racing and gaming commission's position. She stated that the goal of the bill was to allow the executive director to split his time between the commission and the tribal relations. She stated that the law would also allow the director to appoint a deputy director who would serve at the pleasure of the executive director and would have to have a background check and hold an unclassified position; the director would no longer have to devote his full time to the commission.

Senator Vratil made a motion to introduce the bills. Senator Gooch seconded that motion. The bills were introduced.

Senator Barnett expressed his thanks to the director of Alcoholic Beverage Control and the industry representatives who worked on the bill. Chairperson Harrington thanked Senator Barnett for continuing to work with people in the industry this summer.

Chairperson Harrington introduced Ed Van Petten, Executive Director of the Kansas Lottery. Mr. Van Petten presented testimony on the state of the lottery. (Attachment 1)

Chairperson Harrington asked Mr. Van Petten if he knew anything about Mexico wanting to become involved in the lottery. He stated that Mexico had voiced an interest, but that the constitutional amendment which allows the Kansas lottery to participate in a state owned and operated lottery may not extend to include Mexico because it may not refer to the United States of America as a state. He stated that he did not know the answer right now, but he has contacted the governor's office and would look into whether or not additional legislation is needed for getting a formal interpretation. He stated that Puerto Rico has also expressed some interest. Mr. Van Petten pointed out that the District of Columbia participates in the lottery although it is not a state per say.

Chairman Harrington asked the committee for questions. In response to a question from Senator Gooch, Mr. Van Petten stated that the lottery monitors ticket sales and that if all of the top prizes have been won for each game, then the lottery immediately sends out a message to all sellers to shut down those games and then credits sellers for unsold tickets so that they do not lose any money, and the players are not misled. He stated that the tickets would be repossessed by 9:00 to 9:30 a.m., but he could at least honestly guarantee that they could all be gotten by the following day. He stated that this was still better response time than any other state

CONTINUATION SHEET

MINUTES OF THE SENATE FEDERAL AND STATE AFFAIRS COMMITTEE at on January 22, 2002 in Room 245-N of the Capitol.

in the nation. He stated that the Kansas Lottery had started that policy last May, as soon as they became aware of lawsuits which had been filed in other states concerning the same issue.

Senator Gooch stated that he was not aware that any lawsuits had been filed, but he was glad to hear that Kansas had a way to regulate it. Mr. Van Petten stated that there have been lawsuits in four different states including California, Arizona, Colorado, and Washington state, although the California suit has been dismissed. He stated that most of the other jurisdictions had dismissed the cases because the plaintiffs had not fulfilled all potential administrative remedies. He stated that the courts had not really ruled on the merits of the cases. Mr. Van Petten stated that if the ticket states that a player can win twenty thousand or fifty thousand dollars, and if that was not the case, then his organization did not feel that it ought to be marketing that ticket.

Senator Gooch stated that he appreciated hearing that. In response to a security question from Senator Gooch, Mr. Van Petten stated that the Kansas Lottery was audited by a third party audit firm named RMS McGladrey out of Minneapolis, Minnesota. He stated that the firm made a few suggestions but no items which they considered to be a breach in security. He stated that while he may not be able to say a great deal to put the committee at ease, he can assure them that the lottery is secure.

Chairperson Harrington stated that since Mr. Van Petten was appointed Executive Director of the lottery things have been relatively calm. She stated that he had come in under a cloud of controversy and that the lottery was in a much better place this year than it was last year.

Mr. Van Petten stated that in regard to the Richard Knowlton case, there had been a lapse in the security tapes which had been eliminated even before the audit took place. He stated that the game tapes are now delivered directly to vendors in tamper-proof containers to eliminate any risk. Mr. Van Petten also stated that no one can even request access to the gaming system without going through security.

Russell Mills, Legislative Research Department, presented an informational packet about the Kansas Lottery. (Attachment 2)

Following his presentation, Chairperson Harrington asked the committee for questions. Senator O'Connor asked Mr. Mills how much of the ten million dollars was dedicated to K-12 education. Mr. Mills responded that he did not have the exact statistics, but he would get that information to her. He stated that most of the money was used for post secondary education, technological innovation grants, and other grant programs.

Mr. Mills then presented "Kansas Lottery and Wagering Tax Revenue Transfers". (Attachment 3)

In response to a question from Chairperson Harrington, Mr. Van Petten stated that the lottery sales since September 11, 2001 have declined in the period two to three weeks afterward, but sales have since rebounded. He stated that Keno was still down.

The meeting was adjourned at 11:20 a.m. The next meeting will be held at 10:30 a.m. on January 23, 2002.

# SENATE FEDERAL AND STATE AFFAIRS COMMITTEE GUEST LIST

DATE: January 22, 2001

NAME	REPRESENTING
Tom Palace	PMCA OF KANSAS
Stephanie Buchanan	DOB
Ed Van Petten	Kansas Lottery
Keith Kocher	KS Lottery
Glenn Thompson	Stand Up For K.S.
Sarah Kessinger	Harris News Service
Jeffery Cornejo	Sen. Brungardt's intern
Janet McPherson	Kansas Farm Bureau
Kati Hays	Mark Gilstrap's Intern
Kristin Thoburn	Sen. Barnett
Connie Burns	Whitney B. Demron, PA
JOHN C. BOTTENBERG	Woodlands
Trista Beadles	Governor's Office
Ryan Wright	Speaker's Office





**Bill Graves**  
Governor

**Ed Van Petten**  
Executive Director

## TESTIMONY ON THE KANSAS LOTTERY

**Before the Senate Federal and State Affairs**  
**By: Ed Van Petten, Executive Director - Kansas Lottery**  
**January 22, 2002**

Chairperson Harrington and Committee Members:

I appreciate the opportunity to appear before you and report on the operations of the Kansas Lottery. There has been much progress within the Lottery since last year.

Financially the Lottery is in better condition than it has been in years. FY 2001 was the first year in six years that the Lottery did not operate at a deficit. FY 2000 showed an operating deficit of \$983,942; FY 2001 showed an increase of \$73,450. The transfer to the State of Kansas for FY 2001 totaled \$55,795,055, which was the lowest transfer amount since 1994, just under \$2 million dollars less than the year before. Sales totaled \$184.7 million. When I was appointed to this office, I was charged with making the agency operate within its means. That has been done, but at a slight cost of sales.

During the first half of the present fiscal year, we have totaled just over \$100 million in sales. Much of the credit for these figures goes to the \$295 million dollar Powerball jackpot in August. However, we are now healthier financially, and have increased prize payments somewhat, which will rejuvenate our instant ticket business over the next few months. Other factors that have affected instant ticket sales, which tend to be more of an impulse buy, are higher gas prices (less extra cash at the point of

purchase), pay at the pump (less contact with point of sale, and tickets), as well as the general economy.

As you may recall, the Kansas Legislature amended the Lottery act in 2000 to reduce the transfer rate for pull-tab tickets from 30% to 20%. This, however, was overridden in that session by the Omnibus Appropriations Bill, and therefore became effective on July 1, 2001. We began working in early 2001 with our instant ticket printer on a new concept called "variable-imaged" pull-tabs. This development allows pull-tabs to be consigned, activated and validated similarly to an instant scratch ticket. With the ability for inventory control on the on-line system, we have gone from less than 100 retailers selling pull-tabs, to over 75% penetration in the market, and average sales of approximately \$10,000 per week to over \$100,000 per week. Kansas was the first Lottery in the World to market this product, and it has been very successful. Not only are sales of the pull-tabs generating additional revenue for the State, our instant product sales have increased with the introduction of this product. Over the first six weeks of marketing the pull-tabs, sales remained over \$150,000, and instant ticket sales increased by an average of \$35,000 per week.

After hearing the concerns of the Kansas Legislature during hearings last year, we have taken a proactive role in working with the Kansas Problem Gambling Coalition. Among other things, we have assisted in the development of point of sale information regarding problem gambling and the treatment thereof and have taken an active role with the group attending all meetings and offering our resources to the extent possible.

During the last year, we have gone to RFP on our online contract, instant ticket printing, an external audit, and a security audit. We presently have a pending RFP for a building lease for our headquarters, and are about to issue one for our advertising agency.

We have recently joined with 15 other Powerball states to jointly produce television and radio commercials with the legendary Ray Charles. The tag line of "Powerball – America's Game," was developed and utilized very effectively by Mr. Charles. By cooperating with multiple jurisdictions, we have the rights to six television, and six radio ads, at approximately the cost of one television ad.

We have announced that the Kansas Cash game will be changed in February to a format that will be similar to Powerball, and increase the lower level prizes significantly. We anticipate that the change will also enhance the sales, due to the higher prize amounts at the secondary and lower levels, thus benefiting the State.

We are continually trying to economize at the Lottery, and could no longer justify the cost of our office in Wichita. That office was closed effective November 30, 2001, with an annual savings of approximately \$86,000 in rent, alone. We did have to lay off two employees as a result of the decision; however, all other employees remained.

# KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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January 14, 2002

## KANSAS LOTTERY

### Summary

Kansas statutes provide for collection and allocation of revenue from three types of gambling: bingo, parimutuel wagering on dog and horse races, and the Kansas Lottery. In addition, the state is reimbursed for certain expenditures made under provisions of the tribal/state gaming compacts which regulate Indian casino gaming. Slightly over 30 percent of state revenue from gambling is used to operate the state agencies charged with licensing, regulating, and conducting (in the case of the lottery) legal gambling in Kansas.

**Lottery History.** In 1986, a constitutional amendment to provide for a state-owned lottery was approved by the voters of Kansas by a vote of 515,893 to 291,411. The 1987 Kansas Legislature approved implementing legislation which created a new state agency, the Kansas Lottery, to operate the state lottery. The legislation also established a five-member Lottery Commission to oversee the operation of the lottery; required that at least 45 percent of the money collected from ticket sales be awarded as prizes and at least 30 percent of the money collected be transferred to the State Gaming Revenue Fund (SGRF); exempted lottery tickets from the sales tax; and allowed liquor stores to sell lottery tickets.

The constitutional amendment also contained a sunset provision which would have prohibited operation of the state lottery in 1990 unless a concurrent resolution authorizing such operation was adopted by both chambers of the Kansas Legislature during the 1990 Session. 1990 SCR 1646 was adopted by the Legislature to continue operation of the state lottery.

The state lottery was scheduled for abolition under the Kansas Sunset Law in 1992. The Legislature approved 1992 SB 472 which continued the Kansas Lottery until 1996. In turn, the 1995 Legislature approved HB 2077 which continued the Kansas Lottery in existence until 2002. In order to give the Lottery a one-year "wind down" period if it is not extended, the 2001 Legislature addressed the issue of continuing the Kansas Lottery in existence beyond July 1, 2002.

The 2001 Legislature enacted HB 2038 which extends the Kansas Lottery until July 1, 2008. The bill also requires that a security audit of the Kansas Lottery be conducted at least once every three years and places responsibility for these security audits under the Legislative Post Audit Act.

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Attach # 2  
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New language provides that the Executive Director shall not agree to any renewal or extension of a major procurement contract unless such extension or renewal is awarded in the manner provided by the Lottery Act.

The bill also places several limitations and restrictions on the operation of the Kansas Lottery:

- The Kansas Lottery cannot conduct games on lottery machines as defined in the bill;
- The amount of time between Keno games must be not less than four minutes;
- No retail sales of lottery tickets by electronic mail, telephone, or the Internet are permitted;
- The lottery may not engage in the unsolicited advertisement or promotion of any lottery by electronic mail or telephone; and
- All advertising and marketing practices of the Kansas Lottery will have to meet or exceed the standards of the North American Association of State and Provincial Lotteries.

## **Kansas Lottery**

**Lottery Revenue.** Receipts from the sale of lottery tickets are deposited by the Executive Director of the Kansas Lottery in the Lottery Operating Fund in the state treasury. Statutorily, moneys in that fund are used to support operation of the Lottery; pay prizes to lottery winners (*via* a transfer to the Lottery Prize Payment Fund); and provide funding for correctional and juvenile facilities, and economic development *via* the SGRF.

A minimum of 45 percent of net monthly receipts from the sale of lottery tickets must be awarded as prizes. The Lottery Act requires that a minimum of 30 percent of net monthly receipts from the sale of lottery tickets must be credited to the SGRF. However, the Legislature has frequently transferred additional amounts to the SGRF. For FY 1997 and FY 1999, the Legislature set the transfer at a minimum of 30.75 percent. For FY 1998 the transfer was set at a minimum of 31.25 percent. For FY 2000 and FY 2001, the transfer was set at 30.00 percent. The remainder of sales receipts may be used to operate the Lottery and to pay commissions to merchants who sell lottery tickets.

Lottery revenue has been used for other purposes over the years. During the first year of Lottery operation, FY 1988, a statutorily required transfer was made from the Lottery Operating Fund to repay to the State General Fund the amount utilized to establish the Lottery. (K.S.A. 74-8712) In FY 1989, a transfer was made from the Lottery Operating Fund directly to the County Reappraisal Fund. That amount was in addition to the statutorily set amount of the SGRF used to cover a portion of the cost of statewide reappraisal. Every



year from FY 1993 through FY 1997, transfers were made from the Lottery Operating Fund to the Kansas Bureau of Investigation (KBI) to finance the KBI's gaming investigation unit. (These transfers ended in FY 1997.) In FY 1998, the Legislature authorized the transfer of \$253,195 from the KBI to the SGRF to repay FY 1996 lottery and racing moneys.

The 2001 Legislature approved a total FY 2002 budget for the Kansas Lottery of just over \$140.0 million, of which \$23.1 million is for operating the lottery and \$117.2 million is for prizes and retailers' commissions. The approved staffing level for FY 2002 is 91.0 positions.

**State Gaming Revenue Fund.** Some state revenue from both the Lottery and parimutuel wagering is transferred to the SGRF. That fund is used essentially as a holding fund from which further transfers are made on a monthly basis. No more than \$50 million can be credited to the SGRF in any fiscal year. Amounts in excess of \$50 million are credited to the State General Fund. FY 1994 was the first year during which transfers to the SGRF exceeded \$50 million. Since then, the \$50 million cap on the SGRF has resulted in \$68.6 million being transferred to the State General Fund.

Beginning on July 1, 1995, statutory transfers from the SGRF were established as follows<sup>1</sup>:

- 85 percent to the Economic Development Initiatives Fund;
- 10 percent to the Correctional Institutions Building Fund; and
- 5 percent to the Juvenile Detention Facilities Fund.

**Economic Development Initiatives Fund.** Under current state law, the first \$50.0 million credited to the SGRF each year is divided as follows:

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<sup>1</sup> Distribution of moneys credited to the State Gaming Revenue Fund has changed since the fund's inception. Prior to June 30, 1990, 30 percent of the State Gaming Revenue Fund was used to defray a portion of costs incurred by counties during statewide reappraisal, for a total of \$15.9 million. (In addition, for each of fiscal years 1991-1995, the Legislature appropriated approximately \$3 million, \$14.9 million total, to the Department of Revenue from the Economic Development Initiatives Fund for county reappraisal aid.) At that time, 60 percent of the fund was used to finance economic development projects and 10 percent financed correctional facilities.

From FY 1991 until the end of FY 1995, 90 percent of Gaming Fund revenue was earmarked for the Economic Development Fund and 10 percent for the Correctional Institutions Building Fund (to finance adult correctional facilities). (K.S.A. 79-4804)

- \$5.0 million to the Correctional Institutions Building Fund to help offset State General Fund (SGF) expenditures in constructing and maintaining state prisons;
- \$2.5 million to the Juvenile Detention Facilities Fund to help local governments pay the cost of confining local juvenile offenders; and
- \$42.5 million to the Economic Development Initiatives Fund (EDIF).

Gaming revenues in excess of \$50.0 million are credited to the State General Fund, with the exception of a transfer of \$80,000 to the new Problem Gambling Grant Fund. The approved budget for FY 2002 includes an estimated \$60.0 million from gaming revenues. Appropriations from gaming revenues in support of education related programs are made from the EDIF.

A portion of the EDIF expenditures are used to support education. Approved FY 2002 expenditures from the EDIF in support of education are summarized below:

- Department of Education/State Board of Regents—\$10.03 million;
- Department of Commerce and Housing—\$4.36 million;
- Kansas Technology Enterprise Corporation—\$8.57 million; and
- Adjutant General Educational Assistance Program—\$250,000.

Attached is a detailed table which indicates the total approved expenditures from the EDIF for FY 2000, FY 2001, and FY 2002.

TABLE F

**ACTUAL FY 2000, ESTIMATED FY 2001, AND APPROVED FY 2002  
TRANSFERS AND EXPENDITURES FROM THE  
ECONOMIC DEVELOPMENT INITIATIVES FUND**

Agency/Program	Actual FY 2000	Approved FY 2001	Approved FY 2002
<b>Department of Commerce and Housing</b>			
Agency Operations	\$ 6,994,001	\$ 8,583,915	\$ 8,459,757
Small Business Development Centers	485,000	485,000	485,000
Certified Development Companies	475,000	400,000	400,000
Kansas Industrial Training/Retraining	3,600,000	3,600,000	3,600,000
Trade Show Promotion Grants	149,495	150,000	150,000
Community Capacity Building Grants	197,000	197,000	197,000
Economic Initiative Opportunity Fund	5,000,000	3,500,000	3,500,000
Tourism Promotion Grants	952,100	1,052,100	1,052,100
Mid-America World Trade Center	41,889	42,000	0
Mainstreet Grant and Development Prog.	216,550	216,800	216,800
Existing Industry Expansion Prog.	800,000	500,000	500,000
Travel Information Centers	6,355	15,000	115,000
Training Equipment Grants	300,000	277,500	277,500
Motion Picture and Television Rebate	0	23,800	75,000
Agriculture Products Dev.	536,817	540,000	540,000
Kansas Sports Hall of Fame	50,000	0	0
Eisenhower Museum Grant	300,000	300,000	0
National Teachers Hall of Fame Grant	0	100,000	0
HOME Program	0	533,022	530,000
Subtotal - KDCH	\$ 20,104,207	\$ 20,516,137	\$ 20,098,157
<b>Kansas Technology Enterprise Corporation</b>			
Agency Operations	\$ 1,290,829	\$ 1,308,863	\$ 1,331,781
Centers of Excellence	4,350,000	4,325,000	4,350,000
Research Matching Grants	1,260,000	1,246,000	1,216,000
Information Services	97,279	0	0
Business Innovative Research Grants	58,643	76,000	76,000
Small Business Innovation Research	400,000	440,000	440,000
Special Projects	83,893	79,303	79,303
Commercialization Grants	1,690,000	1,156,664	1,450,000
Mid-America Manufac. Tech. Center (MAMTC)	1,000,000	950,931	1,000,059
EPSCoR	3,200,000	3,200,000	3,000,000
Graduate Intern Program	30,000	0	0
Subtotal - KTEC	\$ 13,460,644	\$ 12,782,761	\$ 12,943,143
<b>Kansas, Inc.</b>			
Agency Operations	\$ 185,924	\$ 336,949	\$ 343,267
<b>State Fair</b>			
Agency Operations	\$ 35,000	\$ 134,000	\$ 0
Capital Improvements	0	100,000	0
Subtotal - State Fair	\$ 35,000	\$ 234,000	\$ 0



Agency/Program	Actual FY 2000	Approved FY 2001	Approved FY 2002
<b>Department of Education/Board of Regents</b>			
Ag in the Classroom	\$ 0	\$ 30,000	\$ 0
Challenger Project	0	50,000	0
Matching Grants - AVTS	191,018	200,000	166,855
Postsecondary Aid—AVTS	6,716,110	6,882,981	6,916,110
Capital Outlay—AVTS	2,000,000	2,700,000	2,700,000
Comprehensive Grant Scholarship Assistance	0	250,000	250,000
Subtotal - Education/Regents	\$ 8,907,128	\$ 10,112,981	\$ 10,032,965
<b>Historical Society</b>			
Agency Operations	\$ 192,107	\$ 95,000	\$ 0
<b>Arts Commission</b>			
Agency Operations	\$ 0	\$ 119,110	\$ 0
<b>State Library</b>			
Grants to Local Libraries	\$ 0	\$ 170,000	\$ 0
<b>Department of Administration</b>			
Public Television Grants	\$ 0	\$ 350,000	\$ 0
<b>Wildlife and Parks</b>			
Local Government Outdoor Recreation	\$ 500,000	\$ 500,000	\$ 0
<b>Adjutant General</b>			
Kansas National Guard Educational Assist. Program	\$ 50,000	\$ 50,000	\$ 250,000
<b>State Water Plan Fund</b>	\$ 2,000,000	\$ 2,000,000	\$ 1,638,180
<b>TOTAL EXPENDITURES</b>	<b>\$ 45,435,010</b>	<b>\$ 47,266,938</b>	<b>\$ 45,305,712</b>

**EDIF Resource Estimate  
FY 2001 – FY 2002**

	Approved FY 2001	Approved FY 2002
Beginning Balance	\$ 3,779,114	\$ 1,976,476
Gaming Revenue	42,500,000	42,500,000
Other Income	2,964,300	1,000,000
Total Available	\$ 49,243,414	\$ 45,476,476
Less: Expend. and Transfers	47,266,938	45,305,712
<b>ENDING BALANCE</b>	<b>\$ 1,976,476</b>	<b>\$ 170,764</b>



## Kansas Lottery

Expenditures:	Actual FY 2000	Approved FY 2001	Approved FY 2002
State Operations	\$ 20,282,802	\$ 23,086,874	\$ 23,125,424
Prizes and Retailer Commissions	<u>116,349,287</u>	<u>117,134,307</u>	<u>117,197,791</u>
<b>TOTAL--Operating</b>	<b><u>\$ 136,632,089</u></b>	<b><u>\$ 140,221,181</u></b>	<b><u>\$ 140,323,215</u></b>
Financing:			
All Funds	\$ 136,632,089	\$ 140,221,181	\$ 140,323,215
State General Fund	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL</b>	<b><u>\$ 136,632,089</u></b>	<b><u>\$ 140,221,181</u></b>	<b><u>\$ 140,323,215</u></b>
Percent Change:			
All Funds	(1.2)%	2.6%	0.1%
State General Fund	0.0%	0.0%	0.0%
FTE Positions			
	88.0	88.0	89.0
Other Unclassified Positions	<u>5.0</u>	<u>2.0</u>	<u>2.0</u>
<b>TOTAL</b>	<b><u>93.0</u></b>	<b><u>90.0</u></b>	<b><u>91.0</u></b>
<b>Transfers to the SGRF</b>	<b>\$\$ 59,646,911</b>	<b>\$ 60,000,000</b>	<b>\$ 60,000,000</b>

The 2001 Legislature approved sales by the Kansas Lottery of \$200 million in FY 2001 and \$200 million in FY 2002. Payments for prizes, retailer commissions, and certain categories of state operations fees (online telecommunications, online service contract, and instant ticket printing) are linked to the sales estimates and are adjusted as sales projections change. In FY 2002, the expenditure limitation for agency operations totals \$9,257,161.

There is a statutory minimum of 30 percent of lottery sales reserved for transfer to the State Gaming Revenues Fund (SGRF), except for sales of pull-tabs which are set at 20 percent. Since 1999, the Legislature has approved the 30.0 percent transfer rate in order to provide additional funds for prizes. Prior to FY 2000, higher transfer rates often were approved by the Legislature since any excess funds above \$50 million accrue to the State General Fund. In FY 2001, originally 13 transfers had been scheduled. However, a proviso in the FY 2002 appropriations bill preempted the 13th transfer, and as a result, there are scheduled only 12 transfers in FY 2001 and 12 transfers in FY 2002. Actual FY 2001 transfers totaled \$56,535,258. The original estimate based on 13 transfers was \$64.6 million in FY 2001.

## THE KANSAS LOTTERY

Executive  
Director: Ed Van Petten

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Topeka 66603-3638  
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### Department of Finance

Comptroller: Gary Saville  
Phone: (785) 296-5781

### Department of Information Resources

Director: Dave Mackey  
Phone: (785) 296-5782

### Division of Security

Director: Darrell Pflughoft  
Phone: (785) 296-5714

### Division of Sales and Marketing

Director: vacant  
Phone: (785) 296-5762

A state operated lottery was approved by Kansas voters in the 1986 elections. Based upon the approval, the Kansas Legislature implemented legislation authorizing the creation and powers of a state agency called the Kansas Lottery. Governor Mike Hayden signed the legislation March 12, 1987. which as approved:

- The Kansas Lottery is administered by the executive director, who is appointed by the governor.
- The Kansas Lottery Commission, a five-member board appointed by the governor, consults with and advises the executive director in establishing policy, approving major contracts, rules and regulations for Lottery games and promotions, and approving the annual budget.

◦ The Kansas Lottery Act requires that a minimum of 45 percent of total revenue be returned to the players through the prize fund. Currently, an average of 54 percent is being paid out in prizes.

◦ The State Gaming Revenues Fund receives 30 percent of lottery ticket sales. (Exception: The 2001 Kansas Legislature approved 20 percent of Kansas Lottery **pull tab ticket sales only** to be transferred to the State Gaming Revenues Fund.) The Kansas Legislature determines how monies in the State Gaming Revenues Fund are distributed. Transfers up to \$50 million are made from the State Gaming Revenues Fund in the following manner: 85 percent is allocated to the Economic Development Initiatives Fund, 10 percent is transferred to the Correctional Facilities Building Fund, and 5 percent provides revenues for the Juvenile Detention Facilities Building Fund.

◦ Kansas Lottery tickets are exempted from sales tax.

#### DEPARTMENTAL SUMMARIES

**- Executive -** The Executive Department oversees staffing, internal auditing, legal guidance and secured operation of the Kansas Lottery. It ensures all personnel are knowledgeable of the newest and most effective products, technologies, marketing and advertising strategies within the gaming and lottery industries. Along with providing a positive environment for employees, the Executive Department maintains integrity and confidence in the agency for the benefit of all Kansans.

**-- Sales and Marketing -** The sales division is under the supervision of the director of Marketing and Sales, who is responsible for developing and implementing online and instant game sales goals and strategies, and for coordinating regional office activities including the distribution of instant and pull-tab ticket stock.

The marketing division markets and promotes the Kansas Lottery and its games in an effective and responsible manner. The marketing division is under the supervision of the director



of Marketing and Sales, who is responsible for the development of new games, contracted advertising and promotional events.

**-- Security --** The role of the Security Department is to provide maximum security to Lottery personnel and property, to investigate and prosecute criminal violations related to the Lottery and to preserve the integrity of the Lottery and all its activities.

**-- Information Resources --** This department is responsible for developing, maintaining, securing and providing user training and support for all the computer and telecommunications needs of the Lottery.



In Fed St  
 Attach #3  
 01/22/02

<b>KANSAS LOTTERY AND WAGERING TAX REVENUE TRANSFERS</b>								
	Actual FY 1988	Actual FY 1989	Actual FY 1990	Actual FY 1991	Actual FY 1992	Actual FY 1993	Actual FY 1994	Actual FY 1995
<b>SGF Receipts/Offsets:</b>								
Lottery Transfers to SGF	\$ 2,843,321	--	--	--	\$ 1,500,000	--	--	--
Lottery Transfers to KBI	--	--	--	--	--	150,000	100,684	122,124
Racing Transfers to SGF	--	--	--	1,646,665	--	--	--	--
Racing Transfers to KBI	--	--	350,000	364,000	303,872	289,984	322,580	366,368
<b>Total Transfers</b>	<b>\$ 2,843,321</b>	<b>--</b>	<b>\$ 350,000</b>	<b>\$ 2,010,665</b>	<b>\$ 1,803,872</b>	<b>\$ 439,984</b>	<b>\$ 423,264</b>	<b>\$ 488,492</b>
<b>State Gaming Revenue Fund Receipts:</b>								
Regular Lottery Transfers <sup>a</sup>	\$ 8,500,000	\$ 20,115,848	\$ 19,081,989	\$ 19,453,470	\$ 22,847,019	\$ 32,479,362	\$ 45,787,329	\$ 50,806,564
Special Lottery Transfers	--	1,444,696	150,000	--	2,800,000	--	2,000,000	2,318,130
KBI Transfer to SGRF	--	--	--	--	--	--	--	--
Racing Transfers	--	--	3,682,246	7,577,665	7,103,667	5,822,316	5,963,172	4,073,564
<b>Total Funds Available</b>	<b>\$ 8,500,000</b>	<b>\$ 21,560,544</b>	<b>\$ 22,914,235</b>	<b>\$ 27,031,135</b>	<b>\$ 32,750,686</b>	<b>\$ 38,301,678</b>	<b>\$ 53,750,501</b>	<b>\$ 57,198,258</b>
<b>SGRF Transfers Out:</b>								
To Econ. Dev. Initiative Fund	\$ 5,100,000	\$ 12,936,326	\$ 13,748,541	\$ 24,328,021	\$ 29,475,617	\$ 34,471,510	\$ 45,000,000	\$ 45,000,000
To County Reappraisal Fund	2,550,000	6,468,163	6,874,271	(b)	(b)	(b)	(b)	(b)
To State General Fund <sup>c</sup>	--	--	--	--	--	--	3,750,501	7,198,258
To Juvenile Detention Fund	--	--	--	--	--	--	--	--
To Correctional Inst. Bldg. Fund	850,000	2,156,054	2,291,424	2,703,114	3,275,069	3,830,168	5,000,000	5,000,000
To Problem Gaming Grant Fund	--	--	--	--	--	--	--	--
<b>Total SGRF Transfers</b>	<b>\$ 8,500,000</b>	<b>\$ 21,560,544</b>	<b>\$ 22,914,235</b>	<b>\$ 27,031,135</b>	<b>\$ 32,750,686</b>	<b>\$ 38,301,678</b>	<b>\$ 53,750,501</b>	<b>\$ 57,198,258</b>
Transfer to County Reapprsl. Fund <sup>d</sup>	--	\$ 2,915,318	\$ 24,316	--	--	--	--	--
<b>TOTAL ANNUAL GAMING TRANSFERS</b>	<b>\$ 11,343,321</b>	<b>\$ 24,475,862</b>	<b>\$ 23,288,551</b>	<b>\$ 29,041,800</b>	<b>\$ 34,554,558</b>	<b>\$ 38,741,662</b>	<b>\$ 54,173,765</b>	<b>\$ 57,686,750</b>
Cumulative Transfers	\$ 11,343,321	\$ 35,819,183	\$ 59,107,734	\$ 88,149,534	\$ 122,704,092	\$ 161,445,754	\$ 215,619,519	\$ 273,306,269

a) Statutory rate of at least 30.00 percent. Set by provision in the appropriation bill at 30.00 percent in FY 2000 and FY 2001.

b) No 30 percent statutory transfer for reappraisal after June 30, 1990.

c) Only when SGRF receipts exceed \$50,000,000, annually.

d) Recapture of lapsed encumbrances per 1988 HB 3091.

**KANSAS LOTTERY AND WAGERING TAX REVENUE TRANSFERS (continued)**

	Actual FY 1996	Actual FY 1997	Actual FY 1998	Actual FY 1999	Actual FY 2000	Actual FY 2001	Cumulative Total
<b>SGF Receipts/Offsets:</b>							
Lottery Transfers to SGF	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 4,343,321
Lottery Transfers to KBI	124,008	162,393	--	--	--	--	659,209
Racing Transfers to SGF	--	--	--	--	--	--	1,646,665
Racing Transfers to KBI	372,023	393,965	--	--	--	--	2,762,792
<b>Total Transfers</b>	<b>\$ 496,031</b>	<b>\$ 556,358</b>	--	--	--	--	<b>\$ 9,411,987</b>
<b>State Gaming Revenue Fund Receipts:</b>							
Regular Lottery Transfers <sup>(a)</sup>	\$ 54,614,751	\$ 56,182,980	\$ 60,304,388	\$ 59,333,464	\$ 59,646,910	\$ 56,535,258	\$ 565,689,332
Special Lottery Transfers	3,375,788	312,761	--	--	--	--	12,401,375
KBI Transfer to SGRF	--	--	253,195	--	--	--	253,195
Racing Transfers	2,476,790	1,428,020	1,598,007	680,090	531,070	426,605	41,363,212
<b>Total Funds Available</b>	<b>\$ 60,467,329</b>	<b>\$ 57,923,761</b>	<b>\$ 62,155,590</b>	<b>\$ 60,013,554</b>	<b>\$ 60,177,980</b>	<b>\$ 56,961,863</b>	<b>\$ 619,707,114</b>
<b>SGRF Transfers Out:</b>							
To Econ. Dev. Initiative Fund	\$ 42,500,000	\$ 42,500,000	\$ 42,500,000	\$ 42,500,000	\$ 42,500,000	\$ 42,500,000	\$ 465,060,016
To County Reappraisal Fund	(b)	(b)	(b)	(b)	(b)	(b)	15,892,434
To State General Fund <sup>(c)</sup>	10,467,329	7,923,761	12,155,590	10,013,554	10,177,980	6,881,863	68,568,836
To Juvenile Detention Fund	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	15,000,000
To Correctional Inst. Bldg. Fund	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	55,105,828
To Problem Gaming Grant Fund	--	--	--	--	--	80,000	80,000
<b>Total SGRF Transfers</b>	<b>\$ 60,467,329</b>	<b>\$ 57,923,761</b>	<b>\$ 62,155,590</b>	<b>\$ 60,013,554</b>	<b>\$ 60,177,980</b>	<b>\$ 56,961,863</b>	<b>\$ 619,707,114</b>
Transfer to County Reapprsl. Fund <sup>(d)</sup>	--	--	--	--	--	--	<b>\$ 2,939,634</b>
<b>TOTAL ANNUAL GAMING TRANSFERS</b>	<b>\$ 60,963,360</b>	<b>\$ 58,480,119</b>	<b>\$ 62,155,590</b>	<b>\$ 60,013,554</b>	<b>\$ 60,177,980</b>	<b>\$ 56,961,863</b>	<b>\$ 632,058,735</b>
Cumulative Transfers	\$ 334,269,629	\$ 392,747,748	\$ 454,905,338	\$ 514,918,892	\$ 575,096,872	\$ 632,058,735	

a) Statutory rate of at least 30.00 percent. Set by provision in the appropriation bill at 30.00 percent in FY 2000 and FY 2001.

b) No 30 percent statutory transfer for reappraisal after June 30, 1990.

c) Only when SGRF receipts exceed \$50,000,000, annually.

d) Recapture of lapsed encumbrances per 1988 HB 3091.