

MINUTES OF THE HOUSE COMMITTEE ON FEDERAL AND STATE AFFAIRS.

The meeting was called to order by Chairperson Bill Mason at 1:30 p.m. on February 19, 2003 in Room 313-S of the Capitol.

All members were present except: Representative John Edmonds
Representative Joann Freeborn
Representative Arlen Siegfried

Committee staff present: Russell Mills, Legislative Research Department
Mary Torrence, Office of Revisor of Statutes
Rose Marie Glatt, Committee Secretary

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

Others attending: See Attached

Staff distributed information reflecting data accounting for all dollars related to the Kansas Lottery (Attachment 1). Figures were given for receipts/offsets and transfers categories. Since 1988, when Lottery/Parimutuel began, a total of \$692,897,062 million dollars has come to the state's general fund.

Ed Van Petten, Executive Director, Kansas Lottery briefed the committee on the operation of the Kansas Lottery (Attachment 2). Based on the performance lottery to date, he anticipates that this fiscal year they will have the largest sales in the history of the Lottery as well as the largest transfers to the state.

He explained that SB 230 has been introduced in the Senate that would provide that the Lottery could simply transfer those sums of money not needed for the monthly operation of the Kansas Lottery. Governor Sebelius supports the statutory language in the bill. An amount of approximately \$4.5 million would be maintained to insure that the lottery remains able to pay operating costs in a timely manner.

All lottery terminals statewide are operated on a new satellite and radio communications network. There are the normal start up issues involved, but the installation was very successful with minimal problems. The Lottery expects to save about \$1.5 million each fiscal year, starting with FY 2004.

Discussion followed regarding line items in the Lottery Budget, Gambling Grant Fund and Kansas Coalition Problem Gambling and the use of Economic Development Initiative Fund.

The meeting adjourned at 2:16 p.m. with the next meeting scheduled for February 20, at 1:30 p.m. in room 313-S.

KANSAS LOTTERY AND WAGERING TAX REVENUE TRANSFERS

	Actual FY 1988	Actual FY 1989	Actual FY 1990	Actual FY 1991	Actual FY 1992	Actual FY 1993	Actual FY 1994	Actual FY 1995
SGF Receipts/Offsets:								
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
Total Transfers	\$ 2,843,321	--	\$ 350,000	\$ 2,010,665	\$ 1,803,872	\$ 439,984	\$ 423,264	\$ 488,492
State Gaming Revenue Fund Receipts:								
Regular Lottery Transfers ^a	\$ 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
Total Funds Available	\$ 8,500,000	\$ 21,560,544	\$ 22,914,235	\$ 27,031,135	\$ 32,750,686	\$ 38,301,678	\$ 53,750,501	\$ 57,198,258
SGRF Transfers Out:								
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 ^c	--	--	--	--	--	--	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 Gambling Grant Fund ^d	--	--	--	--	--	--	--	--
Total SGRF Transfers	\$ 8,500,000	\$ 21,560,544	\$ 22,914,235	\$ 27,031,135	\$ 32,750,686	\$ 38,301,678	\$ 53,750,501	\$ 57,198,258
Transfer to County Reapprsl. Fund ^e	--	\$ 2,915,318	\$ 24,316	--	--	--	--	--
TOTAL ANNUAL GAMING TRANSFERS	\$ 11,343,321	\$ 24,475,862	\$ 23,288,551	\$ 29,041,800	\$ 34,554,558	\$ 38,741,662	\$ 54,173,765	\$ 57,686,750
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 2001 and FY 2002.
 b) No 30 percent statutory transfer for reappraisal after June 30, 1990.
 c) Only when SGRF receipts exceed \$50,000,000, annually.
 d) Beginning in FY 2001, the Legislature approved an annual transfer of \$80,000 to the Problem Gambling Grant Fund. This action reduced the amounts available for transfer to the EDIF, JDF, and CIBF.
 e) 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	Actual FY 2002	Cumulative Total
SGF Receipts/Offsets:								
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
Total Transfers	\$ 496,031	\$ 556,358	--	--	--	--	--	\$ 9,411,987
State Gaming Revenue Fund Receipts:								
Regular Lottery Transfers ^a	\$ 54,614,751	\$ 56,182,980	\$ 60,304,388	\$ 59,333,464	\$ 59,646,910	\$ 56,535,258	\$ 60,494,603	\$ 626,183,935
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	343,724	41,706,936
Total Funds Available	\$ 60,467,329	\$ 57,923,761	\$ 62,155,590	\$ 60,013,554	\$ 60,177,980	\$ 56,961,863	\$ 60,838,327	\$ 680,545,441
SGRF Transfers Out:								
To Econ. Dev. Initiative Fund	\$ 42,500,000	\$ 42,500,000	\$ 42,500,000	\$ 42,500,000	\$ 42,500,000	\$ 42,432,000	\$ 42,432,000	\$ 507,424,016
To County Reappraisal Fund	(b)	(b)	(b)	(b)	(b)	(b)	(b)	15,892,434
To State General Fund ^c	10,467,329	7,923,761	12,155,590	10,013,554	10,177,980	6,961,863	10,838,327	79,487,163
To Juvenile Detention Fund	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,496,000	2,496,000	17,492,000
To Correctional Inst. Bldg. Fund	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	4,992,000	4,992,000	60,089,828
To Problem Gambling Grant Fund ^d	--	--	--	--	--	80,000	80,000	160,000
Total SGRF Transfers	\$ 60,467,329	\$ 57,923,761	\$ 62,155,590	\$ 60,013,554	\$ 60,177,980	\$ 56,961,863	\$ 60,838,327	\$ 680,545,441
Transfer to County Reapprsl. Fund ^e	--	--	--	--	--	--	--	2,939,634
TOTAL ANNUAL GAMING TRANSFERS	\$ 60,963,360	\$ 58,480,119	\$ 62,155,590	\$ 60,013,554	\$ 60,177,980	\$ 56,961,863	\$ 60,838,327	\$ 692,897,062
Cumulative Transfers	\$ 334,269,629	\$ 392,747,748	\$ 454,905,338	\$ 514,918,892	\$ 575,096,872	\$ 632,058,735	\$ 692,897,062	

- a) Statutory rate of at least 30.00 percent. Set by provision in the appropriation bill at 30.00 percent in FY 2001 and FY 2002.
- b) No 30 percent statutory transfer for reappraisal after June 30, 1990.
- c) Only when SGRF receipts exceed \$50,000,000, annually.
- d) Beginning in FY 2001, the Legislature approved an annual transfer of \$80,000 to the Problem Gambling Grant Fund. This action reduced the amounts available for transfer to the EDIF, JDF, and CIBF.
- e) Recapture of lapsed encumbrances per 1988 HB 3091.

TESTIMONY ON THE KANSAS LOTTERY

**Before the House Federal and State Affairs Committee
By: Ed Van Petten, Executive Director - Kansas Lottery
February 19, 2003**

Committee Members:

Thank you for this opportunity to address this committee regarding the operation of the Kansas Lottery. As in the past, I have put together some facts regarding the operation of the lottery and sales figures for the present fiscal year to give this committee some insight into the direction that your lottery is taking. I am very confident that this fiscal year will show the highest sales in the history of the lottery, as well as the largest transfer to our great state.

As of February 15, 2003, sales are up \$6,311,507 from one year ago, despite the fact that sales of Powerball tickets are below sales from last year by \$3,030,995. Even though we have had a record breaking Powerball jackpot, the jackpot came on a Christmas Day draw, which hurt sales. Sales on that draw were over \$2 million off from the draw on August 25, 2001, for the \$295 million jackpot. We feel that our biggest star is Super Kansas Cash, which is showing a 52.42% increase amounting to \$4,434,428, as of February 15, 2003. As you may recall, that game was modified effective February 17, 2002.

We have modified our marketing method for instant tickets, launching more games with fewer tickets. We have reduced cost of sales however, by changing printing methods, so that more games are printed at one time. This reduces per ticket costs, from printing one game at a time at the smaller per game quantities. Overall printing costs are down even though the cost per ticket has increased. Another consideration is that more \$2 and \$5 tickets are being offered than ever before, and these tickets being larger are more expensive to print. This method of printing and marketing tickets has required the planning of games up to nine months ahead of time, but has resulted in increased instant sales for the fiscal year of 9.65%, or \$4,290,959. As you may

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be aware, Kansas launched its first \$10 scratch ticket during the holiday season, which has been very successful, resulting in over \$2.5 million in sales. As such, we are planning to print a \$10 ticket to have available all year, in the very near future.

It is my opinion, that the increase in instant ticket sales is directly attributable to the change in transfer method adopted last year by the legislature in the final Appropriations Bill. As you will recall, the legislature agreed to eliminate reference to percentages for the monthly transfer amount, changing to a minimum dollar amount for each month and for the fiscal year. This flexibility has allowed us to market more higher price point tickets, which require higher percentage prize payments to be viable on the market. Governor Sebelius has informed me that she will support the Kansas Lottery in proposing that the statutory language contained in K.S.A. 74-8711 be amended, to provide that the Lottery simply transfer those sums of money not needed for the monthly operation of the Kansas Lottery. This proposal has now been introduced as S.B. 230. As you are aware, there is sufficient oversight of this agency to make sure that the operating fund does not expand beyond reasonable amounts. It is anticipated that the fund should be maintained at between \$4 and \$4.5 million after each monthly transfer to insure that the lottery remains able to pay operating costs in a timely manner, as operating costs normally are over \$8 million per month.

We are now operating all lottery terminals statewide on a new satellite and radio communications network that connect the Lottery retailers to the GTECH and Lottery systems. This private network uses all wireless communications technology, utilizing a mix of Very Small Aperture Terminal (VSAT) satellite locations, VSAT master locations, and radio locations that transmit to a central VSAT master location.

All satellite traffic utilizes Space Net satellite technology and is transmitted back to a ground station in McLean, Virginia. The transactions are then routed to the GTECH data center in Topeka via frame relay landline. End to end security is provided by the system, from the terminal to the host system in Topeka.

There have been the normal start up issues expected of a hardware and software installation of this magnitude, but overall the installation has been very successful with minimal problems.

The Lottery is beginning to realize the projected savings from the installation and those savings will continue throughout the length of the contract. The Lottery expects to save about \$1.5 million each fiscal year, starting with FY2004. For FY2003, the savings will amount to about half that amount since the new network was installed half way through this fiscal year.

As occurs every year, Legislative Post Audit audited the Kansas Lottery, under contract with the firm of Berberich Trahan. This was the seventh year in a row, that there have been no reportable findings in the course of the financial compliance audit.

The Governor has recommended that all agencies absorb a 5.9% decrease in their budgets for FY 2004. Although the budget submitted by the Governor removed the money directly from our Marketing budget, we intend to absorb the loss of funds throughout the agency hopefully not cutting our advertising by more than half of the total cut. We understand fully the reason for the cuts and will do our part in helping the State of Kansas.

Thank you for your time, and the opportunity to share our successes.