

MINUTES OF THE SENATE FEDERAL AND STATE AFFAIRS COMMITTEE

The meeting was called to order by Chairman Pete Brungardt at 10:30 a.m. on March 11, 2004 in Room 231-N of the Capitol.

All members were present.

Committee staff present:

Russell Mills, Legislative Research  
Dennis Hodgins, Legislative Research  
Theresa Kiernan, Revisor of Statutes' Office  
John Beverlin, Committee Secretary

Conferees appearing before the committee:

Ed Van Petten, Executive Director, Kansas Lottery  
Matthew All, Chief Counsel, Governor's Office  
Tracy Diel, Executive Director, Kansas Racing and Gaming Commission  
Representative Tom Burroughs

Others attending:

See Attached List.

Chairperson Brungardt welcomed everybody to the committee meeting. He informed the committee that they would be hearing a report from Ed Van Petten, of the Kansas Lottery, titled "The Feasibility of Electronic and/or Casino Gaming in Kansas" by Christiansen Capital Advisors, LLC. The Chairperson welcomed Mr. Van Petten to the podium.

Mr. Van Petten presented testimony to the committee. The testimony contained a summary of the report ([Attachment 1](#)). The entire report can be found at [www.kslottery.com/news/newsrelease.htm](http://www.kslottery.com/news/newsrelease.htm). Mr. Van Petten explained to the committee the objectives and findings of the report.

Chairperson Brungardt asked the committee for questions

Senator Barnett asked Mr. Van Petten for the criteria that went into the definition of economically feasible. He wanted to know whether the study considered any issues regarding gaming's impact on other local businesses and its social impact.

Mr. Van Petten stated that the primary consideration was the cost of addiction and the impact of other businesses in the area. However, he stated, the impact on other businesses is hard to determine.

Senator Barnett asked whether a number existed to show the social costs subtracted out of the revenue proposed in the different scenarios.

Mr. Van Petten stated no; no number had been determined.

Senator Barnett asked how the report ascertained Dodge City being able to support a destination casino while Kansas City could only support one casino.

Mr. Van Petten explained the class or size of a casino in Dodge City would not be the same as the one in Kansas City. He further explained that the proposal ties the casino into a wild west theme to attract tourists into the area.

Senator Barnett expressed concern about a destination casino in Galena, Kansas. He asked Mr. Van Petten for the population size of Galena.

Mr. Van Petten estimated the population to be about 1000 individuals. He explained that Galena was close to major cities in Missouri and Oklahoma.

CONTINUATION SHEET

MINUTES OF THE SENATE FEDERAL AND STATE AFFAIRS COMMITTEE at 10:30 a.m. on March 11, 2004 in Room 231-N of the Capitol.

Senator Betts asked for the projected number of living wage jobs that would be created by the destination casinos.

Mr. Van Petten explained that the question was not asked because of funding limitations.

Senator Betts asked Mr. Van Petten to provide him that information.

Mr. Van Petten stated he would try to obtain the information.

Senator O' Connor observed that the state receives a percentage of the gross revenue indicated in the report.

Mr. Van Petten stated that Senator O' Connor was correct.

Senator O' Connor observed that the percentage that goes to the states is only a piece of the gross revenue listed in the report.

Mr. Van Petten stated that Senator O' Connor was correct.

Senator O' Connor asked if it was known how large would be the state's piece of the revenue.

Mr. Van Petten explained that **SB 499, Kansas expanded gaming opportunity act; authorizing destination casinos, electronic and video gaming and other games at certain locations**, calls for a minimum transfer to the state of 22 percent for destination casinos and 18 percent for the tracks.

Senator Lyon asked whether this report confirmed previous reports.

Mr. Van Petten explained that there were several reports from different sides of the issue. He explained the reason for them to contract with an independent group to come up with a figure. He further explained that he felt like the report numbers were about average, compared to other reports.

Chairperson Brungardt thanked Mr. Van Petten and welcomed Matthew All to the podium.

Mr. All presented testimony to the committee containing comments on the report "The Feasibility of Electronic and/or Casino Gaming in Kansas" by Christiansen Capital Advisors, LLC (Attachment 2).

Chairperson Brungardt thanked Mr. All and asked the committee for questions. None were asked.

Chairperson Brungardt turned the committee's attention to **SB 32, Distribution of breakage at greyhound tracks which have closed or no longer conduct races**. He welcomed Tracy Diel to the podium.

Mr. Diel presented testimony in favor of **SB 32** (Attachment 3). He provided an overview and reason for the passage of the bill. Mr. Diel also presented an amendment to the bill (Attachment 4).

Chairperson Brungardt asked the committee for questions.

Senator Teichman stated the legislature had already dealt with the bill once. She wanted to know what happened on the previous attempts.

Mr. Diel explained that **SB 230** was amended last year to contain the language of **SB 32**. Because **SB 230** did not go anywhere, they were back with **SB 32**.

Chairperson Brungardt asked the committee for additional questions. None were asked.

Senator Teichman made a motion to recommend SB 32 favorable for passage as amended. The motion was seconded by Senator O' Connor. The bill was recommended favorable for passage as amended.

CONTINUATION SHEET

MINUTES OF THE SENATE FEDERAL AND STATE AFFAIRS COMMITTEE at 10:30 a.m. on March 11, 2004 in Room 231-N of the Capitol.

Chairperson Brungardt asked the committee to turn its attention to **Sub HB 2713**.

Representative Tom Burroughs explained to the committee that the amendment that will be offered concerning sales tax is considered a friendly amendment.

Theresa Kiernan explained the sales tax amendment to the committee. She explained that there would now be sales tax on the ticket and an additional fee on remaining funds. Ms. Kiernan explained that there was also clean-up concerning the wording of the licensing body being the commission and not the commissioner.

Chairperson Brungardt asked about the Tough Man competition.

Representative Burroughs explained that the original bill did eliminate the Tough Man competition. He explained that he wanted to put a definition back into the bill concerning amateur sports and regulatory bodies. He explained that this amendment calls for any amateur fight to be regulated by an amateur regulatory body approved by the commission. This would prevent the Tough Man competition.

Senator Barnett made a motion to recommend **Sub HB 2713** favorable for passage as amended. The motion was seconded by Senator Teichman. The bill was recommended favorable for passage as amended.

Chairperson Brungardt thanked the committee.

The meeting was adjourned at 11:30 a.m. The next meeting is scheduled for 10:30 a.m. March 15, 2004 in room 231-N.

Senate Federal and State Affairs Committee

Date: MAR 11, 2004

Name:

Representing:

Ed Van Petten

Lottery

Keith Kocher

Ks Lottery

Jim Foulson

" "

Mike Taylor

Unified Government / Wyandotte County

Garry Winget

KAP

Patrick Wusley

GTECH

Shirley Allen

Butler Nat'l

Susan Paxson

KGA

TRACY Diehl

KRGC

Ron Hein

Hein Law Firm, Chtd

Andy Shaw

Kearney & Associates Inc

Ralph Snyder

Ks. American Legion

Dan Murray

Federico Consulting

Ullrich Behan

Kickapoo Tribe in KS

Whitney Jamron

Kickapoo Tribe / Sac: Fox Nation

Bob Heptig

GTECH

Mr. Hein

Hein Law Firm

E P Hein: Dan

Sr Vice Comdr VFW DIST 1

Richard Stuckey

ELKS lodges of KANSAS

Jerry L. Griggs

Moose Lodges of Kansas

D. Dale Allen

V.F.W. POST 1650

M. J. (Mr) Ashmumble

VFW Post 1650

Leonard O. Dal

ord. of mystic Shrine OF KANSAS

John Pinegar

Butler National Corporation

Senate Federal and State Affairs Committee

Date: MARCH 11, 2004

Name:

Representing:

Lance W. Burr

Kickapoo Nation

Dave Thomas

LOTTERY, KS. Am. Legion

Cherie Thomas

Lottery Ks Am Legion <sup>Am Legion</sup>

Pat Riner

Leavenworth Post 23 <sup>American Legion</sup> Lottery

Robert Lopez

Overlook and Shrine

Glenn Thompson

Stand up for Kansas

Bettie Thompson

Stand up for Kansas

Frances Wood

Woman's Christian Temperance Union

# **The Feasibility of Electronic and/or Casino Gaming in Kansas**

## **SUMMARY**

**(The full text of this study, including all  
Appendices, may be found at  
[www.kslottery.com/News/NewsReleases.htm](http://www.kslottery.com/News/NewsReleases.htm),  
or go to [www.kslottery.com](http://www.kslottery.com) and hit the "News" link)**

Senate Federal and State Affairs Com.

Date: **MARCH 11, 2004**

Attachment: # **1**

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# The Feasibility of Electronic and Casino Gaming in Kansas: Executive Summary

The Kansas Lottery is reviewing the feasibility and desirability of expanded gaming in the Sunflower State. To assist in this review the Lottery has retained Christiansen Capital Advisors, LLC and Behavioral Research Center, Inc. to conduct market research and related services pertaining to electronic and/or casino gaming in the State of Kansas. Presently, the only kinds of gambling permitted in the State of Kansas are pari-mutuel dog and horse racing under the regulation of the Kansas Racing and Gaming Commission ("pari-mutuel racing"), charitable bingo, tribal casinos per compacts negotiated between the State of Kansas and certain Native American tribes, and games offered by the Kansas Lottery.

During recent legislative sessions, various bills have been introduced to expand gaming in Kansas, including slot machines, video lottery terminals ("VLT's"), casinos (including not only electronic machines, but also table games), and/or other similar types of gaming. Various scenarios for expanded gaming have been proposed, including limiting gaming to presently operating pari-mutuel tracks, a combination of pari-mutuels and "at-large" facilities, one or two "mega resorts," gaming at all Kansas Lottery retail locations, and so forth. Absent a change in the State Constitution, the Kansas Lottery will own and operate any expanded gaming ventures.

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## OBJECTIVES OF THIS STUDY

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Although market research and other similar studies have been conducted by entities interested in operating expanded gaming facilities, no research has been performed on behalf of the Kansas Lottery or the State of Kansas. Christiansen Capital Advisors, LLC ("CCA") has been engaged by the Kansas Lottery ("the Lottery") to conduct market research and provide related services pertaining to electronic and/or casino gaming in the State of Kansas. Specifically, CCA has been asked to do the following:

- To determine whether the expansion of gaming in the State of Kansas is economically feasible;
- If the expansion of gaming in Kansas is feasible, determine what type(s) of gaming is (are) preferable;
- To determine at what venue(s) expanded gaming should be conducted;
- To make any other suggestions and provide such market research and feasibility information as may be deemed necessary for the State of Kansas to adequately evaluate the issue of expanded gaming.

CCA and Behavior Research Center, Inc. ("BRC") determined that the most effective way of addressing these issues is to establish a baseline description of gambling in Kansas before considering potential expansion.



Subcontractor BRC conducted consumer marketing research designed to provide the Kansas Lottery with a valid assessment of public attitudes toward the expansion of gaming, the location of potential new gaming operations, and so forth. A description of the tasks performed by CCA and BRC and the methodology employed is presented in Section 2 of this report.

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#### **SUMMARY OF SURVEY FINDINGS**

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CCA and BRC determined that 55% of adult Kansas residents favor the expansion of destination resort gaming. Kansas residents expressed lukewarm support for State-owned and operated slot machines at fraternal organizations, such as American Legion and Elks Club halls. Kansas residents are ambivalent regarding slot machines at horse and dog tracks. Half oppose allowing Indian tribes to build casinos on non-reservation land or installing video lottery terminals at Kansas Lottery retail outlets.

CCA evaluated the city/cities and/or area(s) of the State to determine where expanded gaming should be located and what level of gaming activity each market will bear. Among the scenarios considered were stand-alone casinos, expanded gaming at existing pari-mutuel facilities, and expanded gaming at Class A fraternal organizations.

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#### **THE GOVERNOR'S GAMING COMMITTEE RECOMMENDATIONS**

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In its final report the Governor's Gaming Committee<sup>1</sup> warned that Kansas should guard against the "proliferation of small, shabby slot parlors." The Committee recommended that the State establish strict criteria to ensure that additional gaming venues, should they be established, are high quality tourist destinations. To that end, the Committee strongly recommended that the State seek independent advice about the market potential for expanded gaming. Estimates of demand for gaming, and especially estimates of how large Kansas gaming markets can become, are fundamental to the formulation of sound gaming policy. Christiansen Capital Advisors, LLC has been hired by the State Lottery to provide this independent analysis.

Utilizing the results of the survey research described in Section 2 as a guide, CCA has been asked to make recommendations to the Kansas Lottery concerning in what city/cities and/or area(s) of the State expanded gaming could and/or should be located, what kind of expanded gaming should be authorized (i.e., what scenario(s)), and the level of gaming activity each Kansas market will support. In the following section CCA presents our findings concerning these matters.

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#### **SCENARIO 1: THREE RESORTS, SLOTS AT TRACKS, AND MACHINES AT FRATERNAL ORGANIZATIONS**

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Exhibit ES.1 summarizes our findings (from Section 4) concerning the revenue potential of three destination resorts, in Kansas City, Wichita, and Dodge City, together with slot machines at the racetracks and at fraternal organizations. We estimate that destination resorts in these

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<sup>1</sup> Governor's Gaming Committee, Final Report, December 18, 2003. pp 44-45.

three cities, slot machines at racetracks (“racinos”), and devices at Class A fraternal organizations would generate gross gaming revenue (“win”) of \$752.6 million.

**Exhibit ES.1 Scenario 1 Revenue Projections (\$s in millions)**

	Revenue Potential Average Facilities	Revenue Potential Destination Casinos
<b>Casinos</b>		
Kansas City	\$ 177.3	\$ 235.3
Dodge City	42.1	62.2
Wichita	156.0	191.1
<b>Racinos</b>		
Woodlands	115.7	77.0
Wichita Greyhound Park	69.9	55.9
Anthony Downs	12.1	11.5
Eureka Downs	14.5	13.0
Camptown	75.3	75.3
<b>Fraternal Organizations</b>		
	31.2	31.2
<b>Total</b>	<b>\$ 694.0</b>	<b>\$ 752.6</b>

Source: Christiansen Capital Advisors, LLC

**SCENARIO 2: THREE RESORTS (2 AT RACETRACKS), SLOTS AT 3 TRACKS, AND MACHINES AT FRATERNAL ORGANIZATIONS**

Exhibit ES.2 summarizes our findings (from Section 4) concerning the revenue potential of three destination resort casinos (at the Woodlands location, Wichita Greyhound Park, and Dodge City) and three racinos (Anthony Downs, Eureka Downs, and one in Pittsburg). We estimate that three destination resorts at these locations, three racinos, and devices at Class A fraternal organizations under Scenario 2 would generate gross gaming revenue (“win”) of \$681 million.

**Exhibit ES.2 Scenario 2 Revenue Projections (\$s in millions)**

	Revenue Potential
<b>Casinos</b>	
Dodge City	\$ 62.2
<b>Racinos</b>	
Woodlands	268.9
Wichita Greyhound Park	209.4
Anthony Downs	16.5
Eureka Downs	15.3
Camptown	74.8
<b>Fraternal Organizations</b>	
	33.8
<b>Total</b>	<b>\$ 681.0</b>

Source: Christiansen Capital Advisors, LLC

**SCENARIO 3A: THREE RESORTS, SLOTS AT TRACKS, AND MACHINES AT FRATERNAL ORGANIZATIONS**

Exhibit ES.3 summarizes our findings (from Section 4) concerning the revenue potential of three destination casinos (in Kansas City, Wichita, and near Galena), five racinos (at the Woodlands location, Wichita Greyhound Park, Anthony Downs, Eureka Downs, and one in Pittsburg), and slot machines at Class A fraternal organizations. We estimate that destination resorts, racinos, and devices at fraternal organizations under Scenario 3a would generate gross gaming revenue ("win") of \$898 million.

**Exhibit ES.3 Scenario 3a Revenue Projections (\$s in millions)**

	Revenue Potential	
	Destination Casinos	
<b>Casinos</b>		
Kansas City	\$	235.3
Galena		240.8
Wichita		193.1
<b>Racinos</b>		
Woodlands		77.0
Wichita Greyhound Park		68.3
Anthony Downs		15.9
Eureka Downs		9.0
Camptown		27.6
<b>Fraternal Organizations</b>		31.2
<b>Total</b>	<b>\$</b>	<b>898.0</b>

Source: Christiansen Capital Advisors, LLC

**SCENARIO 3B: THREE RESORTS AND MACHINES AT FRATERNAL ORGANIZATIONS**

Exhibit ES.4 summarizes our findings (from Section 4) concerning the revenue potential of three destination casinos (in Kansas City, Wichita, and near Galena) and slot machines at Class A fraternal organizations. We estimate that destination resorts at these three locations and devices at fraternal organizations under Scenario 3b would generate gross gaming revenue ("win") of \$887 million.

**Exhibit ES.4 Scenario 3b Revenue Projections (\$s in millions)**

	Revenue Potential	
	Destination Resorts	
<b>Casinos</b>		
Kansas City	\$	288.4
Galena		254.7
Wichita		303.3
<b>Fraternal Organizations</b>		40.6
<b>Total</b>	<b>\$</b>	<b>887.0</b>

Source: Christiansen Capital Advisors, LLC

### Dodge City vs. the Galena Area

CCA believes that, at least from an economic perspective, a resort in or around the Galena, Kansas area makes more sense than one in Dodge City. With only 63,055 adults within 50 miles, and 732,419 within 150 miles, the Dodge City market will simply not support a large destination casino. The market (gross gaming revenue) potential of a Dodge City casino (destination resort or otherwise) is only \$62.2 million (Exhibit ES.1), compared to a market potential of \$254 million for a casino in Southeast Kansas.

While it is true that a casino in the Galena area would be vulnerable to new competition in Missouri should a new license be approved closer to Springfield, cutting off that market, and/or in Oklahoma should casinos be approved in that State, cutting off Tulsa, such risks are inherent in this type of development. Similarly, a casino and/or racino in Kansas City runs the risk that Missouri will remove its present loss limit, thereby increasing the competitiveness of Missouri casinos. All things considered, CCA feels that a destination resort in Southeastern Kansas will significantly outperform one in Dodge City.

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### LARGE DESTINATION CASINO(S)

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The survey results (from Section 2) indicate that the preferred form of expanded gaming in Kansas is destination resort casinos. This policy option would maximize the economic contributions of expanded gaming, i.e., jobs and the capital investment that creates jobs. The Kansas gaming market, particularly around Kansas City, is relatively congested. A large new casino anywhere in the State will compete for patronage with table and machine games not only in Kansas but with casinos elsewhere in the region. In these market conditions simply adding more machines and tables is not the optimum strategy. If a large new casino is to be built, CCA recommends that the emphasis should be placed on non-gaming attractions. Giving area residents good reasons to visit the new facility and spend time on the property that extend beyond the opportunity to engage in gaming will be critically important in determining return on investment ("ROI") and, as important, the new facility's survival prospects in the almost certainly more competitive market conditions that will develop in the years to come.

### Kansas City

For the reasons discussed above and in Section 4 the performance of a casino in Kansas City will be directly related to the attractiveness of the new facility. It is important to remember that the Kansas City market is a competed one, with little unsatisfied demand for gaming.

The creation of a quality destination resort would thus be of the utmost importance. Destination resorts are more attractive than other forms of gaming, drawing customers from greater distances and taking share in competed markets.

CCA further recommends that any policy adopted by Kansas with regard to casino gaming not include loss limits. In any scenario, Kansas casinos would have a significant competitive advantage over Missouri riverboats if they are not subject to a loss limit. The competitive disadvantage for Missouri riverboats created by the \$500 loss limit in that State was described by the Missouri Gaming Commission in its 2003 annual report:

*"For the past eight years, the Commission has fulfilled this statutory requirement by reporting that the data unequivocally shows the loss limit renders Missouri casinos less competitive than casinos in neighboring jurisdictions. Furthermore, the loss limit results in less gaming tax revenue for education, fewer tourists and less admission fee revenue for veterans, the National Guard, college student loans and early childhood development programs.*

*The reason the loss limit renders Missouri casinos less competitive is that customers do not like it. Those who use Missouri casinos find the loss limit a patronizing intrusion by government into a private business transaction. Perhaps more important to the issue of competitiveness are those who dislike the loss limit so much that they refuse to patronize Missouri casinos, choosing instead to visit casinos in neighboring jurisdictions or to gamble illegally at truck stops and private clubs. In addition, since Missouri is the only jurisdiction in the world with a loss limit, tourists and business travelers find it particularly confusing. Out-of-state customers visiting Missouri casinos for the first time often have a look of bewilderment when learning of the loss limit. They typically go directly to the entrance of the casino where they are rerouted to a ticketing window. Once there, the customer is told to produce government approved photo identification and complete paperwork attesting to their identity. Finally, the casino issues the customer a player's card that will make a permanent record of their casino visits and track their play. Understandably, many customers simply leave rather than completing the process."*

No loss limits and a quality destination casino would allow Kansas to recapture a significant portion of the Kansas personal income now flowing into Missouri casinos. Moreover, Kansas City already has two powerful non-gaming attractions: Cabela's in Kansas City, and the nearby Kansas City Speedway. A joint casino resort facility development with either of these attractions would make sense if Kansas elects to build a large new casino. Cabela's is reportedly attracting record numbers of visitors to its recently opened store: Cabela's and the other retail anchors at the Village West development expect to attract between 7 million and 9 million visitors each year, from distances as great as 200 miles, throughout the Midwest region.

Population and personal income in the market area, loss limits, and non-gaming attractions such as Cabela's or Kansas City Speedway are not the only factors that would determine the ability of casino resorts to compete in Kansas markets. Among the most important of these other factors are overall supply/demand relationships (for machine and table gaming) in the market (Section 1); the quality of the machine games offered; the kind and quality of competition Kansas casinos have to deal with; the kind and quality of the casino facilities themselves (a function of the rate of gaming privilege tax); the casino(s)' location(s) in relation to transportation systems, which in Kansas means particularly the Interstate Highways, hours of operation (per day or per year), whether liquor is served in the casino(s), and, very importantly, the consumer price (takeout percentage) of the machines and table games.

Finally, CCA believes the Kansas City market can not support more than one destination casino.

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#### ADDING VLTs TO THE KANSAS LOTTERY

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This policy option would maximize the fiscal contribution of expanded gaming, i.e., tax revenues, while minimizing expanded gaming's economic contributions (jobs and capital

investment). It could also maximize expanded gaming's social costs (in the form of compulsive gambling) and create enhanced business and revenues for the Kansas Lottery franchisees authorized to operate VLTs. By adding to the supply of gaming machines in Kansas this policy option would erode the market economics for a large new casino, making such a project more difficult to finance and further congesting the market in which it would operate if it is financed and built.

The survey results (from Section 2) indicate that this form of gambling has the least support among Kansas residents.

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#### RACINOS

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A more difficult question to answer is whether Kansas should add racinos to its menu of expanded gaming options. Support among the populace for racinos is tepid, with only 47% of those surveyed in favor of allowing slots at racetracks. And, as we note in the full report, there is a limit to the gambling demand in Kansas City and in other Kansas markets, even less competed ones such as Wichita. Adding racino facilities to these markets does little to increase market demand; primarily, this option redistributes a slightly larger pie among more facilities.

This will become an important consideration should lawmakers in Kansas decide to pursue the recommendations contained in the final report of the Governor's Gaming Committee and what our survey results indicate is the preferred option (destination resort gaming) of Kansas residents. Machines at the Woodlands and Wichita Greyhound Park, and, to a lesser extent, in Pittsburg, would limit the amount of capital that can responsibly be invested in destination casinos that share these markets. A rule of thumb is that invested capital should be roughly equal to expected gross gaming revenues. So, for example, if slots are allowed at the Woodlands the appropriate capital investment in a resort casino located two miles away adjacent to the Speedway drops from approximately \$275-\$300 million to approximately \$225 million. Smaller capital investment translates into a less attractive facility with a smaller geographic reach.

The other side of this coin, from a policy viewpoint, is that if slot machines are not allowed at pari-mutuel facilities they will likely suffer severe negative competitive impacts. Some tracks may close, layoffs will be inevitable and it will most certainly hurt breeders and associated agri-business in Kansas.

From a fiscal perspective these policy options are a wash. CCA projects that three destination resorts and five racinos could produce as much as \$898 million in gaming revenue. Three destination resorts alone would recapture much of the racino revenue and generate approximately \$887 million in gaming revenue.

This issue is likely to be decided by political rather than economic considerations, and based upon the foregoing analysis CCA can not make a recommendation in this regard.

# KANSAS

OFFICE OF THE GOVERNOR

KATHLEEN SEBELIUS, GOVERNOR

## Comments on "The Feasibility of Electronic and/or Casino Gaming in Kansas" by Christiansen Capital Advisors, LLC

MATTHEW D. ALL  
Chief Counsel to the Governor

Before the SENATE COMMITTEE ON FEDERAL AND STATE AFFAIRS  
Thursday, March 11, 2004

Mister Chairman and Members of the Committee:

Thank you for allowing me to comment on "The Feasibility of Electronic and/or Casino Gaming in Kansas," a new report commissioned by the Kansas Lottery and prepared by Christiansen Capital Advisors. Based on my review of this report, I would make the following observations:

- **Kansans support expanded gaming.**

The public opinion data from this study are unmistakable and clear-cut. Most Kansans (52%) support expanded gaming in Kansas, while relatively few (38%) oppose it. This is true of both men and women, both young and old, all income levels, all age groups, and in almost every corner of the state. The support is strongest in northeastern Kansas, where gaming venues already exist, and where Kansans have had an opportunity to consider whether they want gaming nearby. By large margins, those Kansans, like their neighbors in Iowa, Missouri, and Colorado, have concluded that they want gaming as one of their entertainment options.

- **Destination Casinos are the right approach for Kansas.**

Kansans strongly prefer destination casinos to other forms of gaming. They approve of state-owned destination casinos by a large margin (55%-39%). And, of those who approve expanded gaming, far more Kansans (63%) are interested in visiting state-owned destination casinos than other gaming venues. What's more, the market analysis in this report demonstrates that high quality



destination casinos, with dining, entertainment, and other attractions, would generate far more revenue and would be much more likely to succeed than “average” gaming venues. As the report states about the Kansas City market, “The creation of a quality destination resort would thus be of the utmost importance. Destination resorts have a higher level of attraction than other forms of gaming, drawing customers from further away, and taking share in competed markets.” (p. 54). To make gaming a success in Kansas, we must not simply expand gaming for gaming’s sake; we must expand it in a way that creates jobs, encourages investment, and attracts tourists. Destination casinos are that way.

- **Gaming venues in Kansas would attract thousands of out-of-state tourists.**

The market data from this study show that gaming venues in Kansas would generate a substantial amount of business from out-of-state tourists—and not just in a Kansas City casino. Gaming venues in Wichita, Dodge City, Pittsburg, and Anthony would all draw thousands from surrounding states. Of particular note, however, is the possibility of a destination casino in southeastern Kansas. The market study shows that a destination casino there would draw a majority of its consumers from Missouri, Arkansas, and Oklahoma, and would generate the vast majority of its revenue from beyond 50 miles. Because of the favorable market conditions in this area, and because of the large population base just over our borders, in Tulsa, Joplin, Springfield, and Fayetteville, a destination casino in southeastern Kansas could generate in excess of \$250 million in gaming revenues annually—most of which would be new dollars coming into our state.

- **The state could generate enormous revenue from gaming.**

The market data from this study show that with a relatively modest expansion of gaming (3 destination casinos and slot machines at parimutuel tracks fraternal and veterans organizations), the gaming market in Kansas could approach \$900 million—much of which would come from out of state. My rough calculations, based on the framework of Senate Bill 499, suggest that the State of Kansas could collect over \$250 million from this voluntary entertainment activity.

Thank you for your attention and consideration. As always, I would be happy to answer any questions.



# KANSAS

KANSAS RACING AND GAMING COMMISSION

KATHLEEN SEBELIUS, GOVERNOR

TO: Senate Committee on Federal and State Affairs

FROM: Tracy T. Diel, Executive Director, Kansas Racing and Gaming Commission

SUBJECT: Senate Bill 32 - Breakage

DATE: March 11, 2004

Chairman Brungardt, members of the Committee. Thank you for the opportunity to testify on Senate Bill 32.

This proposed legislation will amend K.S.A. 74-8821. This amendment is necessary due to the closure of Camptown Greyhound Park in Frontenac, Kansas, in November 2000.

Under the parimutuel wagering act, a charitable organization licensee that conducts parimutuel racing is responsible for dispersing breakage funds in accordance with K.S.A. 74-8821. Breakage is defined in K.S.A. 74-8802(a) as ". . .the odd cents by which the amount payable on each dollar wagered exceeds: (1) A multiple of \$.10, for parimutuel pools from races conducted in this state. . . ." K.S.A. 74-8821 allows 50 percent of the breakage to be used as a supplement to open stakes races conducted at the racetrack facility from which it is derived and the remaining 50 percent of the breakage to be dispersed to owners of Kansas-whelped greyhounds in accordance with the rules and regulations of the Kansas Racing and Gaming Commission.

When Camptown Greyhound Park closed in November 2000, the organization licensee, The Racing Association of Kansas Southeast, had breakage funds which could not be dispersed according to the provisions of K.S.A. 74-8821. The Commission has taken steps to change its rules and regulations to permit some of these funds to be distributed by the charitable organization. However, the Commission does not have the authority to permit the remaining funds to be dispersed.

Senate Bill 32 would give the Commission the authority to permit these funds to be dispersed. At this time, I would ask the Committee to consider amending the proposed language to read as follows:

*(e) If a racetrack facility closes or discontinues conducting races and there are undistributed breakage proceeds from parimutuel wagering conducted by the*

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*organization licensee on live greyhound races, the licensee shall distribute such proceeds to charitable organizations who apply to the organizational licensee. Such proceeds shall be distributed in accordance with the licensee's charitable distribution guidelines. Within 30 days of such distribution, the licensee shall file a report with the commission disclosing the amounts of the distributions, the names of the distributees and the date on which the distributions were made.*

This change in language was suggested by Senator Jim Barone. Senator Barone is the president of The Racing Association of Kansas Southeast, the charitable organization in charge of racing at the Camptown racetrack facility.

1 simulcast licensee on simulcast races displayed by the licensee shall be  
 2 distributed as provided by K.S.A. 74-8836, and amendments thereto.  
 3 ~~(e) If a racetrack facility closes or discontinues conducting races and~~  
 4 ~~there are undistributed breakage proceeds from parimutuel wagering con-~~  
 5 ~~ducted by the organization licensee on live greyhound races, the licensee~~  
 6 ~~shall distribute such proceeds equally among the owners of all greyhounds~~  
 7 ~~eligible to run at the racetrack facility on the day such facility was closed~~  
 8 ~~or such races were discontinued.~~  
 9 ~~The provisions of this subsection shall apply to any racetrack facility~~  
 10 ~~conducting races on or before October 31, 2001.~~  
 11 Sec. 2. K.S.A. 74-8821 is hereby repealed.  
 12 Sec. 3. This act shall take effect and be in force from and after its  
 13 publication in the statute book.

(e) If a racetrack facility closes or discontinues conducting races and there are undistributed breakage proceeds from parimutuel wagering conducted by the organization licensee on live greyhound races, the licensee shall distribute such proceeds to charitable organizations who apply to the organizational licensee. Such proceeds shall be distributed in accordance with the licensee's charitable distribution guidelines. Within 30 days of such distribution, the licensee shall file a report with the commission disclosing the amounts of the distributions, the names of the distributees and the date on which the distributions were made.

The provisions of this subsection shall apply to any racetrack facility conducting races on or before October 31, 2001.

Senate Federal and State Affairs Com.

Date: MAR 11, 2004

Attachment: # A