

## MINUTES OF THE HOUSE FEDERAL AND STATE AFFAIRS COMMITTEE

The meeting was called to order by Chairman Arlen Siegfroid at 1:30 P.M. on January 23, 2007 in Room 313-S of the Capitol.

All members were present except: Benjamin Hodge

Committee staff present:

Kathie Sparks, Kansas Legislative Research Department  
Dennis Hodgins, Kansas Legislative Research Department  
Mike Heim, Revisor of Statutes Office  
Carol Doel, Committee Assistant

Conferees:

Ed Van Petten, Executive Director Kansas Lottery

Others attending:

See attached list

Chairman Siegfroid opened the floor for bill introductions and recognized Representative Loganbill who requested a bill naming the Firefighters Museum in Wichita state fire station memorial. The Chairman made a motion to accept which was seconded by Representative Peterson. With no objection, this bill was accepted.

Representative Mah was recognized and requested a bill to allow slot machines in the VFW, American Legion, and Class A clubs. The Chairman made a motion to accept which was seconded by Representative Peterson. With no objection, this bill was accepted.

Representative Mah also requested a bill to allow Kansas farm winery owners to get a caterers' license. The Chairman made a motion to accept which was seconded by Representative Peterson. With no objection, this bill was accepted.

Representative Mah requested a third bill which would clarify rules for cities revising the building codes in the counties. The Chairman made a motion to accept which was seconded by Representative Peterson. With no objection, this bill was accepted.

Representative Peterson requested a bill dealing with conditions of release of arrested individuals. It adds an option for the court to use. The Chairman made a motion to accept which was seconded by Representative Huebert. With no objection, this bill was accepted.

A second bill was requested by Representative Peterson which adds on second convictions for prostitution that the individual be tested for communicable diseases and that the individual pay for the testing. The Chair made a motion to accept which was seconded by Representative Huebert. With no objection, this bill was accepted.

Representative Kinzer requested a bill that would remove the immunity that K through 12 schools have for acquiring criminally obscene material for the purpose of use in approved course of instruction. The Chairman made a motion to accept which was seconded by Representative Peterson. With no objection, this bill was accepted.

Chairman Siegfroid introduced Ed Van Petten, Executive Director Kansas Lottery who addressed the committee regarding lottery.

Mr. Van Petten related that the extension of the lottery would have to be done by the 2007 Legislature or sales of games such as Powerball, Hot Lotto, Super Kansas Cash, 2by2, Pick 3, Keno and Kansas Hold'Em would have to stop at the close of business on June 30, 2007. All instant tickets would have to be ended before January 1, 2008. They propose eliminating the sunset provision altogether.

Lottery sales for FY 2006 totaled \$235 million, and are presently 5.77% of last year's sales.

CONTINUATION SHEET

MINUTES OF THE House Federal and State Affairs Committee at 1:30 P.M. on January 23, 2007 in Room 313-S of the Capitol.

According to Mr. Van Petten's report the 2002 legislature allowed the Lottery to modify the method of calculating transfers made each month which gave them more flexibility in operations and make it possible to increase prize payouts on their instant products which has helped to boost sales.

Mr. Van Petten stated that their primary concern continues to be security, both in the gaming system and field operations. Measures have been undertaken to increase the security.

The lottery continues to develop marketing partnerships with a number of Kansas businesses and industries marketing games and selling a ticket promoting tourism in a particular area of the state.

According to the report from the Kansas Lottery the Veteran's Benefit Games are about \$3 million, which should result in a transfer for those programs in excess of \$900,000 in fiscal year 2007.

November 12, 2007 is the 20<sup>th</sup> anniversary of the sales of Kansas Lottery tickets. They have launched a \$20.00 scratch ticket on January 11<sup>th</sup> to commemorate the occasion.

Mr. Van Petten concluded his report stating that new games were launched by the Kansas Lottery in 2006 and they presently have a Request For Proposal (RFP), and anticipate receiving bids from GTECH, Scientific Games and Intralot. The RFP is the online gaming system and communications system. (Attachment 1)

Chairman returned to bill introductions and recognized Representative Dillmore who requested a bill regarding crime and punishment relating to unlawful sexual relations. The Chair made a motion to accept which was seconded by Representative Peterson. With no objections, this bill was accepted.

Representative Brunk requested a bill regarding grandparent visitation rights. The Chair made a motion to accept which was seconded by Representative Peterson. With no objections, this bill was accepted.

Representative Swenson requested a bill regarding legislative evaluation of legislative salaries. The Chair made a motion to accept which was seconded by Representative Peterson. With no objections, this bill was accepted.

Chairman requested a motion for approval of the minutes of January 9<sup>th</sup> as read. Representative Dillmore made the motion which was seconded by Representative Huebert. Motion passed.

With no further business before the committee the meeting was adjourned.





## KANSAS LOTTERY

ED VAN PETTEN, EXECUTIVE DIRECTOR

KATHLEEN SEBELIUS, GOVERNOR

Testimony Before The  
**House Federal and State Affairs Committee**  
**Agency Update 1-23-07**

Presented By:  
Ed Van Petten, Executive Director  
Kansas Lottery

Mr. Chairman and members of the Committee:

### **I. Legislative Issues**

KSA 74-8723 provides that the Kansas Lottery is to be abolished on July 1, 2008. The extension of the lottery will have to be done by the 2007 Legislature, as online tickets (Powerball, Hot Lotto, Super Kansas Cash, 2by2, Pick 3, Keno and Kansas Hold'Em) do not expire until after a full year from the draw date on the ticket. Therefore sales for those games would have to stop at close of business on June 30, 2007, if the lottery is not extended in the upcoming session. All instant ticket games (scratch and pulltab) would have to be ended before January 1, 2008, as those tickets expire 180 days after the end date of the particular game.

We propose eliminating the sunset provision altogether. There is no benefit to the provision as oversight is accomplished annually by Federal and State Affairs Committees and throughout the budget process. Also, the Legislature has the authority to end the lottery operations at any time. Our proposed legislation also provides for eliminating the requirement that retailers post a certificate at their retail locations, and deleting KSA 74-8705 (e), which prohibits the renewal or extension of major procurement contracts. The measure has been introduced in the Senate Federal and State Affairs Committee, as S.B. 66.

### **II. Sales**

Sales for FY 2006 totaled \$235 million, and we are presently 5.77% ahead of last year's sales, despite showing more than a 24.56% decline thus far in Powerball sales. Instant

tickets continue to show the greatest increase, and we simply have not had a real large Powerball jackpot thus far this fiscal year, which I believe is the reason for the decline. It takes a jackpot of over \$100 million to generate the selling frenzies which we experienced last year with two record jackpots over \$300 million.

### **III. Transfers**

The 2002 legislature allowed the Lottery to modify the method of calculating transfers made each month. Rather than the statutory provision of transferring 30% of gross sales each month, the Omnibus bill allowed for minimum monthly transfers of \$4.5 million, and a minimum annual total of \$59 million. This request was made to give us more flexibility in operations and make it possible to increase prize payouts to bolster sales. As a result of these changes, the lottery has been able to boost payouts on our instant products which has helped to boost our sales, and thus the overall amount of money transferred. This has been continued in the Omnibus bill each year since, with the target transfer for this fiscal year being \$72 million. Total transfers through January 15, 2007, were \$953,788,277.

### **IV. Operations**

Our primary concern continues to be security, both in our gaming system and field operations. We have eliminated the ability of programmers to access the gaming system unaudited by adding a test system, detached from the gaming system, for developing new programs. We have also increased the audit functions, or oversight, on the gaming system.

We continue to reduce the use of paper to the greatest degree possible. Daily and weekly sales reports, which formerly were distributed on paper, are now paperless and maintained "on line." All draw information is also maintained paperless, and all investigation reports and work papers are stored electronically.

Our gaming system in the field now operates on a wireless communications system statewide. We utilize both satellite and radio technology, and have increased operations with approximately 99.9% up time. When operating on the telecommunications system, uptime ran approximately 98.5%. Total savings per year will run approximately \$1.6 million.

We are required to survey retailers to ensure compliance with the Americans with Disabilities Act, which is a continuing responsibility. We have enjoyed a good working relationship with Anthony Fadale, State ADA Coordinator. I have assigned all duties in this regard to the Security Division instead of Sales Division as had been done in the past. There appeared to be conflicts in asking Sales Representatives to determine if a potential location could sell lottery products.

Last year we paid retailer commissions of \$13,641,678, with total commissions paid through November 30, 2006, of \$172,273,503.

## **V. Partnerships**

We continue to develop marketing partnerships with Kansas businesses and industries. As you are aware, we market games with Kansas Speedway, the Kansas State Fair, Cabela's and General Motors. We also now have formed marketing partnerships with a number of smaller companies across Kansas such as Land Pride in Salina, TerraTrack in Clay Center, Cobalt Boats in Neodesha and Swartz Motorsports in Strong City. Other partners include Big Dog Motorcycles in Wichita, the Wichita Riverfest, 3i Show, The Great Santa Fe Trail Horse Race, and Kansas Department of Wildlife and Parks. We are presently also selling our first ticket promoting tourism in a particular area of the state with "Flint Hills Treasures." Our intent with these games is to increase the exposure of Kansas business, industry and tourism, as well as to generate enthusiasm in Kansas citizens for our games.

There are a number of businesses in the lottery industry that license certain products for use of logos and use their merchandise for prizes in conjunction with lottery games. These licenses are quite often very expensive, so we have tried to generate the same effect of "brand" or name recognition, and hopefully help a Kansas business in the process. Instead of costing the Lottery extra, the merchandise has been provided at reduced cost, with no charges or minimal charges for the use of logos and names. This seems to be a good way to stimulate economic development in Kansas, while generating revenue for the state.

## **VI. Veteran's Benefit Games**

Unaudited sales figures for the Veteran's Benefit Games are about \$3 million, which should result in a transfer for those programs in excess of \$900,000 in fiscal year 2007. These funds are distributed one-half to the National Guard Scholarship fund and one-half to the Veteran's Commission to assist with maintenance of the Soldier's Homes and Veteran's Cemeteries.

## **VII. 20<sup>th</sup> Anniversary**

Sales of Kansas Lottery tickets began on November 12, 1987. We launched a \$20.00 scratch ticket on January 11, to commemorate this occasion, and will have a number of birthday-themed games throughout the year. The \$20.00 ticket will have a second-chance drawing to pick 20 players, who will all receive at least \$20,000 and have a chance to come to Topeka for another drawing and an opportunity to win \$200,000. This Grand Prize event will take place on Friday, November 9, 2007, hopefully at the Capitol.

## **VIII. New Games this Year**

On March 12, we began sale of "Hot Lotto" and became the ninth state to offer the game. It is similar in play to "Powerball," with players choosing five numbers from a field of 39, and one number from a field of 19. As of last Saturday's draw we have had \$6,962,719 in sales this fiscal year.

In June 2006 we introduced the game Super 7's, which is an Electronic Game Card. We were the second lottery to launch the game, and it was very successful, with sales being mostly incremental to existing sales. We launched our second shipment December 14, and have ordered a third game to be delivered in the spring.

On September 24, 2006, we went live with a test market of 86 retailers with the new game "Kansas Hold'Em." We selected retail locations based on the highest Keno sales in each retailer type. We chose social environments (bars and clubs), convenience stores, bowling alleys and fraternal organizations. Thus far the social environments and bowling alleys seem to be the strongest markets. However, in some convenience stores, sales are strong. At this time the game is in 93 locations, and sales have surpassed \$920,000.

## **IX. Current RFP**

We presently have a Request For Proposal (RFP) issued. We anticipate receiving bids from GTECH (present vendor), Scientific Games and Intralot. The RFP is for our online gaming system and communications system for the gaming system. The bids are due February 6, 2007. The current contract began July 1, 2002.