

MINUTES OF THE SENATE FEDERAL AND STATE AFFAIRS COMMITTEE

The meeting was called to order by Chairman Pete Brungardt at 8:30 a.m. on March 28, 2007 in Room 241-N of the Capitol.

All members were present.

Committee staff present:

Kathie Sparks, Kansas Legislative Research Department
Dennis Hodgins, Kansas Legislative Research Department
Mary Ann Torrence, Revisor of Statutes Office
Connie Burns, Committee Assistant

Conferees appearing before the committee:

Others attending:

See attached list.

Briefing and Discussion on: **Lottery Renewal and Expanded Gaming Proposal (Substance of SB 66)**

Staff provided the committee with an overview on Substitute for **SB 66** as amended by the House. (Attachment 1) The information was also provided in a table format. (Attachment 2)

SB 66 as amended would create Kansas Expanded Lottery Act which would authorize the following:

Casinos:

- Create "Gaming Zones" (casinos):
 - Northeast Kansas Gaming Zone - Wyandotte County
 - Southeast Kansas Gaming Zone - Crawford and Cherokee Counties
 - South Central Gaming Zone - Sedgwick and Sumner Counties
 - Southwest Kansas Gaming Zone - Ford County
- County vote of approval required
- An invest in infrastructure, including ancillary lottery gaming facility operations of at least \$225,000,000 in the northeast, southeast and south central gaming zones, and \$50,000,000 in the southwest gaming zone.
- Establishes a gaming privilege fee of \$25,000,000 to be paid by the prospective lottery gaming manager except the privilege fee for the southwest gaming facility zone manager of \$5,500,00
- Establish the disposition of revenues as follows:
 - not less than 22.0 percent of the gaming revenues to the state
 - 2.0 percent to the Problem Gambling and Addictions Fund which may be used to treat alcoholism, drug abuse and other addictive behaviors
 - 1.5 percent to the city
 - 1.5 percent to the county (3.0 percent if the casino is located in a gaming zone of only one county and is not located in the city)
 - 1.0 percent to the host county (2.0 percent if the casino is located in a gaming zone consisting of more than one county and is not located in a city)
 - 1.0 percent to the non-host county if the casino is located in a gaming zone consisting of more than one county
- Approved contracts from casinos would then be submitted to the county where an election would be held to approve or disapprove the contracts

Racetrack Gaming Facilities:

The Kansas Lottery would be responsible for considering and approving proposed racetrack gaming facility management contracts with one or more prospective racetrack gaming facility managers. The prospective managers would have to have sufficient financial resources, and would have to be current in filing taxes to the state and local governments.

The main provisions are:

- Authorize a maximum of 2,800 electronic gaming machines at all locations

CONTINUATION SHEET

MINUTES OF THE Senate Federal and State Affairs Committee at 8:30 a.m. on March 28, 2007 in Room 241-N of the Capitol.

- Establish the number of live greyhound and horse races to be conducted at each parimutuel track prior to authorization of placement of electronic gaming machines
- Establish the distribution of electronic gaming revenues as follows:
 - 25.0 percent to the racetrack gaming facility manager
 - 7.0 percent to the Live Greyhound Racing Purse Supplement Fund (not more than \$3,750 per machine)
 - 7.0 percent to the Live Horse Racing Purse Supplement Fund (not more than \$3,750 per machine)
 - 1.5 percent to the city
 - 1.5 percent to the county (3.0 percent if the track is not in a city)
 - 2.0 percent to the Problem Gambling and Addictions Grant Fund which may be used to treat alcoholism, drug abuse and other addictive behaviors
 - 1.0 percent to the Kansas Horse Fair Racing Benefit Fund
 - 40.0 percent to the state
 - 15.0 percent for expenses
 - \$2,500 per electronic gaming machine
- Electronic gaming machines would be required to pay out not less than 87 percent of the amount wagered per machine, the machines would be linked to a central Lottery communications system to provide monitoring and auditing procedures to take place
- Approved contract from racetracks would then be submitted to the county where an election would be held to approve or disapprove the contracts

Prohibitions:

- State Legislators and other state officials and their spouses and immediate family until they have been out of office for five years from working with a gambling company.
- Eminent domain, revenue bonds, tax-increment financing, and STAR bonds can not be used to acquire any interest in real property for use in a lottery gaming enterprise or used to finance any part of any lottery gaming enterprise or racetrack gaming facility
- The State would be prohibited from entering into management contracts from more than four lottery gaming facilities for additional areas or operating more than 2,800 electronic gaming machines at parimutuel tracks for 25 years.

Court Action

- Any action challenging the constitutionally or otherwise arising out of the Act would be required to be brought in the district court of Shawnee County and the final decision of the district court to be appealed to the Kansas Supreme Court

Some of the concerns asked by the committee and responses by staff:

Are there other states that are owner/operators of casinos?

Kansas is the first, but West Virginia just passed legislation that allows the state to own and operate table games which includes electronic games.

How many states have table games? How many states have Constitutional Amendments for expanded gaming?
Staff will research and get back to the committee.

Who would do the training of the employees? Would they be state employees?

There would be negotiations for the management contract and the bill does not specify that the employees have to be state employees.

The meeting was adjourned at 9:25 am.

SENATE FEDERAL AND STATE AFFAIRS COMMITTEE

GUEST LIST

DATE 3-28-07

NAME	REPRESENTING
Lindsey Douglas	Hein Law Firm
Julie Harris	intern for Gen Barone
Whitson James	Kiddington Phil Sac: for Nash
Scott	KW
Scott	
Steve Kearney	ISLE OF CAPRI
John Peterson	Cynotul Studies
Dan Murray	Federico Consulting

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March 28, 2007

To: Senate Committee on Federal and State Affairs
From: Kathie Sparks, Principal Analyst
Re: Brief on Substitute for SB 66

SB 66, as amended, would create Kansas Expanded Lottery Act which would authorize the following:

- Create "gaming zones" (casinos): Northeast Kansas Gaming Zone (Wyandotte County); Southeast Kansas Gaming Zone (Crawford and Cherokee counties); South Central Kansas Gaming Zone (Sedgwick and Summer counties); and the Southwest Kansas Gaming Zone (Ford County); and
- Parimutuel licensee location which means a racetrack facility owned or managed by the parimutuel licensee.
- The Kansas Lottery Commission would be responsible for ownership, and operational control of all provisions of the Act. The Kansas Racing and Gaming Commission (KRGCC) would be responsible for oversight and regulation of lottery gaming facility operations.
- The Kansas Lottery would be abolished on July 1, 2022.

Gaming Zones (Casinos)

The Kansas Lottery would be responsible for considering and approving proposed lottery gaming facility management contracts with one or more prospective lottery gaming facility managers.

The Lottery Gaming Facilities Contract would contain the following main provisions:

- Have an initial term of 15 years from the date of opening the gaming facility;
- Include a provision for the lottery gaming manager to pay the costs of oversight and regulation of the operation of the lottery gaming facility by the KRGCC;
- An investment in infrastructure, including ancillary lottery gaming facility operations of at least \$225,000,000 in the northeast, southeast and south central gaming zones, and \$50,000,000 in the southwest gaming zone;

- Establish a gaming privilege fee of \$25,000,000 to be paid by the prospective lottery gaming manager except the privilege fee for the southwest gaming facility zone manager of \$5,500,000; and
- Establish the disposition of revenues as follows:
 - Not less than 22.0 percent of the gaming revenues to the state;
 - 2.0 percent to the Problem Gambling and Addictions Fund which may be used to treat alcoholism, drug abuse and other addictive behaviors;
 - 1.5 percent to the city;
 - 1.5 percent to the county (3.0 percent if the casino is located in a gaming zone of only one county and is not located in the city);
 - 1.0 percent to the host county (2.0 percent if the casino is located in a gaming zone consisting of more than one county and is not located in a city);
 - 1.0 percent to the nonhost county if the casino is located in a gaming zone consisting of more than one county.
- Approved contracts from casinos would then be submitted to the county where an election would be held to approve or disapprove the contracts.

Racetrack Gaming Facilities

The Kansas Lottery would be responsible for considering and approving proposed racetrack gaming facility management contracts with one or more prospective racetrack gaming facility managers. The prospective managers would have to have sufficient financial resources, and also would have to be current in filing taxes to the state and local governments.

The bill would make the following main provisions:

- Authorize a maximum of 2,800 electronic gaming machines at all locations;
- Establish the number of live greyhound and horse races to be conducted at each parimutuel track prior to authorization of placement of electronic gaming machines; and
- Establish the distribution of electronic gaming revenue as follows:
 - 25.0 percent to the racetrack gaming facility manager;
 - 7.0 percent to the Live Greyhound Racing Purse Supplement Fund (not more than \$3,750 per machine);
 - 7.0 percent to the Live Horse Racing Purse Supplement Fund (not more than \$3,750 per machine);

- 1.5 percent to the city;
 - 1.5 percent to the county (3.0 percent if the track is not in a city);
 - 2.0 percent to the Problem Gambling and Addictions Grant Fund which may be used to treat alcoholism, drug abuse and other addictive behaviors;
 - 1.0 percent to the Kansas Horse Fair Racing Benefit Fund;
 - 40.0 percent to the state;
 - 15.0 percent for expenses; and
 - \$2,500 per electronic gaming machine.
- The bill would specify the number of days that a racetrack would have to conduct live horse or greyhound racing before the track would be eligible to receive electronic gaming machines.
 - Electronic gaming machines would be required to pay out not less than 87 percent of the amount wagered per machine, and machines would be linked to a central Lottery communications system to provide monitoring and auditing procedures to take place.
 - Approved contracts from racetracks would then be submitted to the county where an election would be held to approve or disapprove the contracts.

Prohibitions

- Eminent domain could not be used to acquire any interest in real property for use in a lottery gaming enterprise;
- Revenue bonds, tax increment financing or similar financing could not be used to finance any part of any lottery gaming enterprise or any racetrack gaming facility;
- Cities, counties or local municipalities would be prohibited from levying taxes, fees, charges, transfers or distributions, other than those specified in the Act;
- The bill would prohibiting the State, until July 1, 2032, from entering into management contracts from more than four lottery gaming facilities, from designating additional areas where the operation of lottery facilities could be authorized, and from operating an aggregate of more 2,800 electronic gaming machines at parimutuel tracks.

Funds

- The bill would create the Expanded Lottery Act Revenue Fund. The moneys in the Fund from the casinos would be distributed or transferred only for the purposes of reduction of state debt, state infrastructure improvements and reduction of local ad valorem tax in the same manner as provided for allocation of amounts in the Local Ad Valorem Tax Reduction Fund.
- The would create the Live Horse Racing Purse Supplement Fund, from which 25 percent would be credited to the Kansas Horse Breeding Development Fund, and 2 percent to the Live Horse Racing Purse Fund Purse fund for registration, administration, development, representation, and promotion of Kansas horse racing and breeding industry.
 - An amount equal to 50 percent would be credited to purse supplements for registered Kansas bred foals, and the remainder for breed awards for Kansas bred horses. Similar disposition of revenues would occur in the Live Greyhound Racing Purse Supplement Fund.
 - Twenty-five percent of the Horse Fair Racing Benefit Fund may be expended on capital improvements to racetrack facilities on or adjacent to premises used by a fair association to conduct fair racing activities.
- The bill would require the KRGC to establish a Greyhound Promotion and Development Fund which would be funded through a voluntary greyhound purse checkoff program which would allow for the deduction of 2 percent from all purses paid to kennels and greyhound owners who participated in the program. The Fund would be used for development, promotion, and representation of the greyhound industry in Kansas.

Court Action

- The bill would require any action challenging the constitutionally or otherwise arising out of the Act to be brought in the district court of Shawnee County. The bill also would provide for the final decision of the district court to be appealed to the Kansas Supreme Court.
- The bill would take effect upon publication in the *Kansas Register*.

2007 State-Owned and Operated Gaming Bill (Senate Bill 66)

Sen Fed & State
 Attachment 2
 3-28-07

	SB 66	
Games Authorized	Electronic gaming machines (slots) Destination casino games (Type III gaming)	
Authorized Locations	Gaming Zones <ul style="list-style-type: none"> • South Central Kansas Gaming Zone - Sedgwick and Sumner County; • Southwest Kansas gaming zone - Ford County; • Northeast Kansas Gaming Zone - Wyandotte County; • Southeast Kansas Gaming Zone - Crawford and Cherokee counties 	
Regulatory Agencies	Kansas Lottery Commission Kansas Racing and Gaming Commission Lottery Gaming Facility Review Board	
County Election	City or County Commission Resolution Required for Gaming Zones (Election after Dec. 31, 2004 binding)	
Minimum Payout on Electronic Gaming Machines	87%	
Electronic Gaming Machines	600 at each racetrack gaming facility	
Limit on Number of Electronic Gaming Machines	2,800 machines would be the total number of machines allocated to all racetrack gaming facilities	
Effective Date	<i>Kansas Register</i>	
Prospective Lottery Gaming Facility Manager	Resident Indian Tribe Other than a resident Indian Tribe	
Infrastructure	\$225,000,000 investment for gaming facilities at a Northeast, Southeast and South Central Gaming Zones \$50,000,000 in the Southwest Gaming Zone	

SB 66		
<p>Disposition of Lottery Gaming Facility Revenue (total revenue minus prizes) in Non-Exclusive Gaming Zone</p>	<p>Problem Gambling and Additions Grant Fund City County (Wyandotte and Ford Counties) County (Crawford/Cherokee, Sedgwick, and Sumner counties) (not located in a city) City (Crawford/Cherokee, Sedgwick, and Sumner counties) County (Crawford/Cherokee, Sedgwick and Sumner counties) (located in a city) Management Fee Expanded Lottery Act Revenues Fund</p>	<p>2% 1.5% 1.5% (3% if casino is not located in city) 2% to host county and 1% to non-host county, if casino is not located in city 1% if casino is in more than one county but located in a city; 1% to host county; and 1% to nonhost county 1% if casino is in more than one county but located in a city; 1% to host county; and 1% to nonhost county To be determined by contract Not Less than 22.0%, to be distributed as follows: ● Reduction of Local Ad Valorem Tax ● State Infrastructure Improvements ● Reduction of State Debt</p>
<p>Disposition of Net Electronic Gaming Machine Income (total revenue minus prizes) in Exclusive and Non-exclusive Gaming Zones</p>	<p>Live Greyhound Racing Purse Supp. Fund Live Horse Racing Supp. Fund Problem Gambling Fund City (Wyandotte, Northeast Gaming Zone) County (Wyandotte, Northeast Gaming Zone) County (Crawford/Cherokee, Sedgwick, and Sumner counties) Kansas Horse Fair Racing Benefit Fund Facility Manager Fee Expanded Lottery Act Revenues Fund Gaming Expenses</p>	<p>7.0% (not to exceed \$3,750/machine) 7.0% (not to exceed \$3,750/machine) 2.0% 1.5% 1.5% (3% if casino is not in a city) 2.0% to host county and 1% to non-host county, if gaming machines are not located in a city; 1% to one county, 1% to second county, and 1% to city, if gaming machines are located in more than one county and located in a city 1.0% To be determined by contract 40%, to be distributed as follows: ● Reduction of Local Ad Valorem Tax ● State Infrastructure Improvements ● Reduction of State Debt 15%</p>

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SB 66		
Generated One-Time Gaming Revenue	Gaming Zone License Fee	
	Sedgwick and Sumner County	\$ 5,000,000
	Ford County	<u>3,000,000</u>
		<u>\$ 8,000,000</u>
	Manager Privilege Fee	
	Northeast Gaming Zone - Wyandotte County	\$35,000,000/manager
	Southeast Gaming Zone - Crawford/Cherokee County	35,000,000/manager
South Central Gaming Zone - Sedgwick and Sumner counties	25,000,000/manager	
Southwest Gaming Zone - Ford County	5,500,000/manager	
Racetrack Gaming Privilege Fee	2,500/ track	