

MINUTES OF THE HOUSE FEDERAL AND STATE AFFAIRS COMMITTEE

The meeting was called to order by Vice- Chairman Mike Kiegrel at 1:30 p.m. on January 21, 2009, in Room 143-N of the Capitol.

Members absent:

Representative Neufeld, Excused
Representative Brown, Excused
Representative Henderson, Excused
Representative Lane, Excused
Representative Peterson, Excused

Committee staff present:

Nikki Feuerborn, Administrative Assistant
Julian Efird, Kansas Legislative Research Department
Dennis Hodgins, Kansas Legislative Research Department
Mike Heim, Office of the Revisor of Statutes
Jason Long, Office of the Revisor of Statutes

Conferees appearing before the committee:

Ann Mah, Representative
Ed Van Petten, Executive Director, Kansas Lottery
Keith Kocher, Executive Director, Gaming Facilities
Thomas Groneman, Director, Alcohol and Beverage Control

Others attending:

See attached list.

In the excused absence of Chairman Neufeld, Vice-Chairman Kiegrel presided at the meeting.

Representative Mah requested the introduction of two bills: (a) concerning the use of E-verify by state and local governments; and (b) concerning the increase of the penalty for misclassification of workers. Representative Benlon moved for the introduction of the legislation for both requests. Representative O'Brien seconded the motion. Motion carried.

Representative Olson moved for the introduction of legislation regarding music performances. Motion was seconded by Representative Knox. Motion carried.

Representative Holmes moved for the introduction of a resolution regarding states' rights and the 10th Amendment to the U.S. Constitution. Motion was seconded by Representative Heubert. Motion carried.

Representative Holmes moved for the introduction of legislation concerning search warrants. Motion was seconded by Representative Grant. Motion carried.

Ed Van Petten, Executive Director of the Kansas Lottery, presented an agency update on the Kansas Lottery (Attachment 1). Sales for FY 2008 totaled nearly \$237 million which is the second highest in Lottery history. The Lottery has worked with every entity that has approached them for a working partnership. The final decision on their participation is with the Executive Director. The distribution of the proceeds from the Lottery is decided through a budgetary process by the Legislature.

Regarding contracts for gaming facility management, Keith Kocher, Executive Director of Gaming Facilities, explained that the deadline for application for management of the proposed Southeast Kansas facility was today but if there were no applicants it would be extended to April 21, 2009. The current economic downturn has had a negative impact on the gambling industry. The Woodlands Racetrack manager declined the opportunity for slot machines at that facility due to the initial investment and the suspected lack of revenue they would produce.

Steve Martino, Executive Director of the Kansas Racing and Gaming Commission, presented a power point demonstration as part of their annual report (Attachment 2). He stated there had been "little to no interest"

CONTINUATION SHEET

Minutes of the House Federal And State Affairs Committee at 1:30 p.m. on January 22, 2009, in Room 143-N of the Capitol.

in opening a casino in Southeast Kansas as Northeast Oklahoma is saturated with such facilities. Many of these have Class II games which are not taxed, thus it becomes a real economic factor in the decision to build a facility in Kansas. The tax rate for Class III games in Oklahoma is 6.0 percent.

Thomas W. Groneman, Director of the Division of Alcoholic Beverage Control, presented a briefing on the responsibilities of the Division and a statistical report of their activities (Attachment 3).

The next meeting is on call of the Chair.

The meeting was adjourned at 3:20 m.

House Federal and State Affairs
Guest list

Name Date 1/21/09 Organization

George Wenger
Matt Casey

Ruffin Companies
GBA

Stephen Durrell
Mike Deines

Lottery
KRGC

DAVE HEINEMANN

SUFK

Chris Gigstad

Federico Consulting

Perch Hen

Men Law Firm

Ed Gray

Commerce

Shaun Blaubitz

KRGC

Sarah Fzell

Danron Govt Relations

Spencer Duncan

Capital Connection KS

David Boucher

Intern - Rep Mah

Rep Ann Mah

House

Jay Hall

KRGC

Keith Kocher

KS Lottery

Jean Holthaus

SRS

Luice Wette

80th Dist.

Steve Hurley

COTM

Tom Greenman

ABC

Ann Zimm

ABC

Amy Campbell

KABR



Ed Van Petten
Executive Director

Kathleen Sebelius
Governor

**Testimony Before The
House Federal and State Affairs Committee
Agency Update January 21, 2009**

Presented By:
Ed Van Petten, Executive Director
and
Keith Kocher, Director of Gaming Facilities
Kansas Lottery

Mr. Chairman and members of the Committee:

I. Legislative Issues

The Kansas Lottery does not propose any additional legislation for this session.

II. Sales

Sales for FY 2008 totaled nearly \$237 million, the second highest in Lottery history. We are presently about 3.71% behind last year's sales. The jackpot games are not performing as well as in previous years, as those games are dependent on jackpots and we simply have not had many large jackpots thus far this year. The exception is the Hot Lotto multistate game that has shown an increase of over 22%, some of which can be attributed to the addition of a "Sizzler" option (similar to the "Power Play" in the Powerball game). After taking the new game "Kansas Hold'em" statewide, sales have increased over 60% per week and are presently up 28.85% over a year ago. Instant tickets have seen a modest decrease of about 1.09%. Likewise, the multistate "2 by 2" game has seen an increase in sales of about 8.5%. Much of that increase may be attributed to changes made in the game last year, including a change to conducting drawings seven days a week, increase in the amount of the top prize, and addition of the "2 by 2 Tuesday" feature.

Florida joined the Powerball game this month bringing the total number of members to 32. In response to adding the large number of Florida players, and in an effort to boost overall Powerball sales, the Multi-State Lottery Association also modified the Powerball game this month, whereby the jackpot odds go up, but overall odds are better for players to win a prize.

128 North Kansas Avenue - Topeka, Kansas 66603-3638
Phone: 785-296-5700 - Fax 785-296-5712 - www.kslottery.com

House Fed & State Affairs
Date: 1-21-09

Attachment 1

Last year we launched the first multi-state instant game in the history of United States lotteries, with our partners at the Iowa Lottery. We are now on our second "Midwest Millions" ticket. Sales of that game have been strong, and continue to be. On January 9 the first of two drawings in the game was held in Topeka for \$500,000, with a Kansas winner, Sandra Vines, from Wichita. We also had two of the five \$10,000 winners. The second \$500,000 drawing will be in Des Moines, Iowa on April 17.

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 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 \$74 million. We were \$2 million short of the target set for last year however, and will ask that this year's figure be reduced. Since this change was made, transfers have increased from \$60.4 million in FY 2002, to over \$70 million the past two years.

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 continued to increase the audit functions, or oversight, on the gaming system. In last year's security audit conducted for Legislative Post Audit, Delehanty Consulting LLC reported, "The Kansas Lottery's security culture may set the standard for the U.S. lottery industry."

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 electronically. All draw information is also maintained paperless, and all investigation reports and work papers are stored electronically.

We are required to survey retailers to ensure compliance with the Americans with Disabilities Act, which is a continuing responsibility. We continue to enjoy a good working relationship with Anthony Fadale, State ADA Coordinator. All surveys are conducted by our security division.

Last year we paid retailer commissions of \$13,768,683, with total commissions paid through FY 08 of \$194,337,092.

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, Midwest Ford Dealers and General Motors. Presently we have a ticket featuring a motorcycle from Big Dog Motorcycles in Wichita and we will launch our annual State Fair instant ticket in April featuring a boat made by Cobalt Boats in Neodesha. We have also promoted tourism in our state with "Flint Hills Treasures," "The Great Santa Fe Trail Horse Race," and the "Sunflower State Games." Other partners include the Wichita Riverfest, the 3i Show, Garmin, Cougar Boats, Cabela's and Kansas Department of Wildlife and Parks. Although still under development, we are working on a ticket with the Bass Pro Shops in conjunction with the Kansas Department of Wildlife and Parks. Also under development is an instant ticket featuring the work of renowned Kansas artist Stan Herd. Mr. Herd is creating a number of "Kansas Scenic Byway" paintings. The paintings will be featured on the tickets and awarded as second chance prizes. Our intent with these "Made in Kansas" games is to increase the exposure of Kansas business, industry and tourism, as well as to generate enthusiasm in Kansas citizens for our games. Thus far with this project over the past few years, we have spent approximately \$4.8 million with Kansas businesses and tourism.

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.

We do still use some licensed games, as they do generate excitement with players and sometimes attract new and lapsed players.

VI. Veteran's Benefit Games

Unaudited sales figures for the Veteran's Benefit Games for FY 08 were a little under \$3 million, which resulted in a transfer for those programs of almost \$880,000. New Veteran's Benefit tickets launched this fiscal year include Betty Boop and one featuring six mascots of the various branches of the United States military. These tickets are showing an increase in sales. Presently we have approximately ~~\$2.3~~ ^{3.3} million in sales, and an estimated transfer amount of approximately \$670,000.

\$1M+

The 2008 Legislature changed the distribution of funds. Net funds are now distributed 30% to the National Guard Museum fund (through June 2010), 40% to Kansas National Guard Education Assistance Act Scholarships, and 30% will benefit the Kansas Veterans' Home in Winfield, the Kansas Soldiers' Home at Fort Dodge, and the Veterans Cemetery System. The games will also now be sold all year, instead of May through November, as was done previously.

VII. New Games this Year

We have continued to work with Scientific Games International in the development of a new game concept called an Electronic Scratch Ticket. This will have a paper ticket, similar to our present scratch tickets, but will display the play of the ticket on an electronic handheld monitor. Security on the tickets has been the biggest hurdle and our Security Department has been working with Scientific Games on this project. We now anticipate first delivery in 4 to 6 weeks.

We now have the capacity to conduct raffle style games after the completion of the system conversion and anticipate doing so during this calendar year.

VIII. RFP's

In the past year we awarded a new contract for advertising. The Lottery received a number of applications, including one from the incumbent vendor. A new agency was selected, JNA Advertising, Kansas City.

We also issued an RFP for the printing of instant tickets. There are now only three printing companies serving state lotteries: Pollard Banknote Limited, GTECH and SGI (Scientific Games International). Pollard Banknote was selected as the Kansas Lottery's primary ticket vendor and the other two companies were given contracts as secondary printers.

In light of the expansion of gaming and the potential need for additional space, in 2008 the Lottery also issued an RFP for facilities to house the Lottery headquarters and warehouse. Several proposals were received and the Lottery is currently considering bids and otherwise negotiating with the bidders.

IX. EXPANDED GAMING

A. SOUTHEAST GAMING ZONE (Crawford and Cherokee counties)

The Lottery successfully negotiated a contract with the only lottery gaming facility manager applicant in the Southeast Gaming Zone, Penn National Gaming, LLC. Before the contract became binding, however, Penn National withdrew citing worsening world-wide economic conditions and competition from the tribal gaming facility located less than one mile away in Oklahoma. The \$25 million privilege fee was scheduled to be refunded to Penn National but pursuant to intervening litigation filed by the Cherokee County Commission the fee has been attached awaiting further court order. All interest earned on privilege fees while on deposit with the State of Kansas was retained by the State (as was the case in all Gaming Zones; however, interest earned on the Penn National funds that were attached will be paid to the successful party in that litigation, not the State).

The application process was recommenced with a deadline of January 21, 2009. If no applications are timely received the Kansas Lottery Commission has automatically extended the deadline to April 31, 2009.

B. SOUTH CENTRAL GAMING ZONE (Sumner County)

The Lottery received four applications to become a lottery gaming facility manager in this Zone. One applicant withdrew prior to contracting with the Lottery, but the Lottery successfully entered into contracts with the remaining three. Of those, the Lottery Gaming Facility Review Board (Review Board) chose Sumner Gaming Joint Venture, which casino was to have been operated in Mulvane under the Harrah's name. Before this contract became binding they chose to withdraw, again citing the world-wide financial crisis. The \$25 million privilege fee deposited by Sumner Gaming Joint Venture, as well as the privilege fees paid by all other applicants in this Zone, have been refunded.

The Lottery has reopened the bidding process in this Zone. Applications are due no later than April 1, 2009.

C. NORTHEAST GAMING ZONE (Wyandotte County)

Contracts were signed by a total of five applicants but two withdrew before getting to the Review Board stage. The Review Board selected Kansas Entertainment, LLC, which was comprised of The Cordish Company and The International Speedway Corporation/Kansas Speedway. Once again, immediately prior to their contract becoming binding they withdrew based upon financial stresses being experienced around the world, which have hit gaming interests particularly hard. All privilege fees in this Zone have been refunded.

We have re-let bids in the Northeast Gaming Zone. The application deadline is April 1, 2009.

D. SOUTHWEST GAMING ZONE (Ford County)

The Lottery contracted with both of the entities submitting applications in the Southwest Gaming Zone. The Review Board chose Butler National Service Corporation as manager of the "Boot Hill Casino and Resort" to be located on the outskirts of Dodge City, Kansas. The KRGC approved the applicant and their contract became binding on December 4, 2008. The \$5.5 million privilege fee deposited by applicant has been transferred to the Expanded Lottery Act Revenues Fund, as provided by the KELA.

A groundbreaking ceremony was held on December 22. The initial "Phase I" of the gaming facility with certain amenities (such as a buffet restaurant) with about 575 slot machines and 75 table game positions, is to be opened no later than December 4, 2009. "Phase II" of the project is to be completed no later than February 4, 2012, which will include the final build-out of the hotel, conference center, spa, swimming pool, and other ancillary facilities and will bring the total number of slot machines to about 875 with 155 table game positions.

Per state consultants' projections, the first full year of gaming may generate approximately \$50 million of net gaming income. The state will receive 22% of the net gaming income,

with a potential increase in that percentage if the manager reaches certain threshold income amounts (which "incentive payment" is unlikely in the early years). Ford County and Dodge City will each receive 1.5% of the net income, with 2% allocated to the Problem Gambling and Addictions Grant Fund.

E. RACETRACK GAMING FACILITIES

The Lottery negotiated extensively with the Woodlands Racetrack in Kansas City but was unable to reach a final contract. The Lottery agreed the Woodlands would receive virtually every dollar of net machine income they possibly could receive under the provisions of the KELA, but the manager still found that unfeasible. The owner of the Camptown Racetrack in Frontenac has for the most part relied upon the manager of the Woodlands Racetrack to conduct initial negotiations with the Lottery, but he has also publicly stated his opinion that the percentages allocated by statute are insufficient to create an acceptable return on investment.

Because there is very little (if anything) more the Lottery could offer them, both parimutuel licensees have stated their intent to seek amendments to the KELA during the 2009 legislative session. In order to realize what they deem a reasonable return on their investment they both feel they must receive a larger share of the net machine income. One or both have suggested that perhaps that rate should be equal to that allocated under the KELA to lottery gaming facility managers (casinos), which is 73% of net gaming income (a minimum of 22% goes to the State, 3% to local governments, and 2% to the Problem Gambling and Addictions Grant Fund). As the KELA is currently written the maximum a racetrack gaming facility may receive is about 40% (25% plus a maximum of an additional 15% for "gaming expenses," along with the relatively insignificant potential to share in any amount that is left over if the 7% allocated to each of the two breed purse funds reaches the annual statutory cap of \$3,750 per machine average).

F. CENTRAL COMPUTER SYSTEM

The KELA specifically requires that all electronic gaming machines be connected to a central computer system chosen and controlled by the Lottery for purposes of security, auditing, monitoring, and deactivation if necessary. The gaming managers must pay for the system. The Lottery issued a request for information, which resulted in extensive negotiations with two vendors to supply and operate the system: Scientific Games International and Spielo (a subsidiary of GTECH Corporation). Both vendors were found to be quite capable of providing the services required, but based upon pricing and technical specifications Spielo/GTECH was awarded the contract. Payment will be based upon annual aggregate net electronic gaming machine income across the state (including all lottery gaming facilities and racetrack gaming facilities, if any). For all amounts up to \$80 million per year the vendor will receive 1.2%, then .8% for amounts over \$80 million and up to \$160 million, and .3% for all amounts in excess of \$160 million.

G. MISCELLANEOUS EXPANDED GAMING MATTERS

Bob Krehbiel, Chief Gaming Officer, has retired. The Governor's Chief Counsel, Sally Howard, has assumed those duties on an acting basis.

Dan Biles of the law firm Gates, Biles, Shields and Ryan was hired to assist the Lottery in all aspects of the application and approval process for all gaming facilities. On January 7 Governor Sebelius appointed Mr. Biles to the Kansas Supreme Court. At this time we anticipate remaining with Mr. Biles' law firm for our outside legal counsel needs.

Although the KELA specifically provides that the gaming facility managers pay all expenses of regulation and oversight incurred by the KRGC, it is silent regarding the expenses of the Kansas Lottery. Therefore, all contracts executed to date have included provisions requiring each manager to pay a pro-rata share of all expenses the Kansas Lottery incurs under the KELA.

Annual Report of the Kansas Racing and Gaming Commission

*Before the House Committee
on Federal and State Affairs
January 21, 2009*

*Stephen Martino
Executive Director*



Discussion will include:

- Race tracks and KELA
- Lottery Gaming Facility Review Board and its process
- Review of casino gaming zones
- KRGC budget and staffing



Race tracks and KELA



House Fed & State Affairs

Date: 1-21-09

Attachment 2

Core aspects of KELA for race tracks

- Kansas Lottery owner of gaming
- 2200 slot machines authorized between three race tracks
- No table games allowed
- Lottery allowed to distribute games between tracks
- \$2500 one time fee per slot paid by tracks



Three things needed to manage slots at tracks

- Affirmative vote by county
- Contract with Kansas Lottery Commission
- KRGC approval of contract



County votes for slot machines at tracks

- Crawford County/Camptown
 - Yes: 61%
 - No: 39%
- Wyandotte County/Woodlands
 - Yes: 82%
 - No: 18%
- Sedgwick County/Wichita Greyhound Park
 - Yes: 49.88%
 - No: 50.12%



Race track gross gaming revenue distribution

- 25% to manager
- 15% to manager for Lottery approved expenses
- 7% to horse purse supplements
- 7% to greyhound purse supplements
- 3% to local units of government
- 2% to state problem gambling fund
- 1% to fair racing supplement fund
- 40% to state



Revenue retained by race track operators in other states

- | | |
|----------------------|------------------------|
| • Iowa: 76% | • Delaware: 48% |
| • Louisiana: 63.6% | • Pennsylvania: 45% |
| • Oklahoma: 59% | • West Virginia: 42.2% |
| • New Mexico: 54.75% | • Kansas: 40% |
| • Maine: 52.2% | • New York: 29.7% |
| • Florida: 50% | • Rhode Island: 27.4% |

Source: 2008 AGA Survey of Casino Entertainment



Race track gaming revenue projections, Christensen Capital Advisors March 2004

- Camptown/Southeast Kansas
– \$27.6M-\$75.3M
- Wichita Greyhound Park
– \$55.9M-\$209.4M
- Woodlands/Kansas City
– \$77M-\$268.9M



Race track gaming revenue
projections, CCA Feb. 2006

- Camptown/Southeast Kansas
– \$56.5M
- Wichita Greyhound Park
– \$59.3M-\$74.2M
- Woodlands/Kansas City
– \$88.2M-\$94.2M

***Assumes casino competition*



Race track gaming revenue
projections, CCA March 2008

- Camptown/Southeast Kansas
– \$156.1M – before casino opening
– \$33.3M – after casino opening
- Woodlands/Kansas City
– \$216M – before casino opening
– \$64.6M – after casino opening



Race track gaming revenue
projections, Cummings
Associates May-Sept. 2008

- Camptown/Southeast Kansas
– \$30.9M – before casino opening
– \$24.1M – after casino opening
- Woodlands/Kansas City
– \$44.2M – before casino opening
– \$25.4M-\$28.5M – after casino opening



Race track gaming revenue
projections, Wells Gaming
Research May 2008

- Camptown/Southeast Kansas
– \$17.17M-\$18.65M
- Woodlands/Kansas City
– \$24.85M-\$31.9M

***Assumes casino competition*



Casino selection process
and the
Lottery Gaming Facility
Review Board



Things needed to manage a
casino in Kansas

- Affirmative vote by county
- Negotiate contract with Kansas Lottery
Commission
- Submit to examination by Kansas Lottery
Gaming Facility Review Board
- Be selected by Review Board
- Have background investigated and
approved by KRGC



County votes for casinos

- Cherokee: Yes: **69.4%** No: 30.6%
- Crawford: Yes: **60.8%** No: 39.2%
- Ford: Yes: **64.0%** No: 36.0%
- Sedgwick: Yes: 43.9% No: **56.1%**
- Sumner: Yes: **63.0%** No: 37.0%
- Wyandotte: Yes: **80.9%** No: 19.1%



Lottery Gaming Facility Review Board

- Matt All, Chairman, Lawrence
- Jim Bergfalk, Mission
- Bob Boaldin, Elkhart
- Garry Boston, Newton
- Jack Brier, Topeka
- Dean Ferrell, Topeka
- Jackie Vietti, El Dorado



Review Board meetings

- In-person: 13 meetings over 19 meeting days totaling 100 hours of meeting time
- Meetings were held in: Emporia, Topeka, Columbus, Belle Plaine, Dodge City and Kansas City
- Tele-conference: Four meetings totaling more than five hours of meeting time
- Board met from Dec. 2007 to Sept. 2008



Review Board consultants

- William Eadington, Ph.D., University of Nevada-Reno, general consultant
- Will Cummings, Arlington, Mass., revenue projections
- John Mills, Ph.D., University of Nevada-Reno, financial suitability
- Richard Wells, Reno, Nevada, revenue projections
- Civic Economics, Austin, Texas and Chicago, evaluation of economic impacts of proposals
- Meridan Business Advisors, Reno, Nevada, fiscal impacts to governments
- Probe Strategic Solutions, Las Vegas and Austin, Texas, evaluation of ancillary facilities



Review Board meeting schedule

- Meeting 1 (zone meeting): Presentations by applicant, Lottery Commission, endorsing authority and public comments
- Meeting 2 (Topeka): Presentations of consultants reports and responses from applicants
- Meeting 3 (teleconference): Opportunity for board to pose follow-up questions to applicants and consultants, seek clarification
- Meeting 4 (Topeka): Final questions from board, final statements by applicants, board vote



Highlights of Review Board process

- Presentations by prospective managers totaling 130 minutes before board over three meetings
- All information considered by the board was publicly available on the KRGC website except for some protected financial data and background investigation reports
- All discussion except for legal or background executive sessions were done in public
- Board information totaled 4,000 pages of applicant and consultant produced information and public comment
- Board operated under strict Code of Conduct



Review Board votes

- Southeast zone: Penn National Gaming by a 5-2 vote
- South central zone: Sunner Gaming and Resorts (Harrah's) by a 4-2-1 vote
- Northeast zone: Kansas Entertainment (Hard Rock) by a 4-3 vote
- Southwest zone: Butler National Service Corp. (Boot Hill) by a 5-2 vote

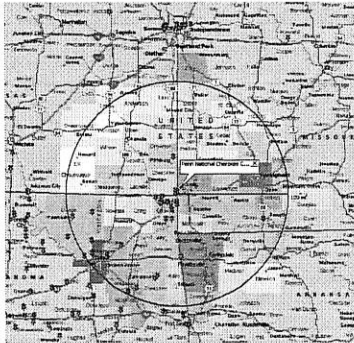


Southeast gaming zone

Penn National Gaming withdrew its application to be a casino manager on September 11, 2008



Penn National Cherokee County Casino Trade Area Map



July 23, 2008

Wells Gaming Research

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Capacity Statistics for Casinos Competing in
the Southeast Kansas Trade Area

Existing Casinos:

- 58 casinos with 31,167 slots, 425 pit tables, and 182 poker tables

4 Expansions & 8 Proposed New Casinos Including Penn:

- 12 casinos with 13,656 slots, 296 pit tables, and 23 poker tables
- These expansions would represent a 44% increase in slots and a 70% increase in pit tables in this trade area

July 23, 2008

Wells Gaming Research

25

Southeast gaming zone revenue
projection, CCA March 2004

\$240.8 million*

* Assumes casinos in KC and Wichita and slots in KC,
Wichita and Crawford Co.



Southeast gaming zone revenue
projection, CCA Feb. 2006

\$138.5 million*

* Assumes casinos in KC and Wichita and slots in KC,
Wichita and Crawford Co.



Southeast gaming zone revenue
projection, CCA March 2008

\$93.9 million*

* Assumes casinos in KC, Sumner Co., and Dodge City
and slots in KC and Crawford Co.



Southeast gaming zone revenue
projection, Wells Gaming Research
July 2008

Low: \$14.7 million*
Mid: \$27.5 million*
High: \$39.0 million*

* In 2010 \$. Assumes casinos in KC, Sumner Co., and Dodge City and slots in
KC and Crawford Co.



Southeast gaming zone revenue
projection, Cummings Associates
July 2008

Low: \$23.2 million*
Mid: \$32.0 million*
High: \$39.0 million*

* Assumes casinos in KC, Sumner Co., and Dodge City and slots in KC and
Crawford Co.



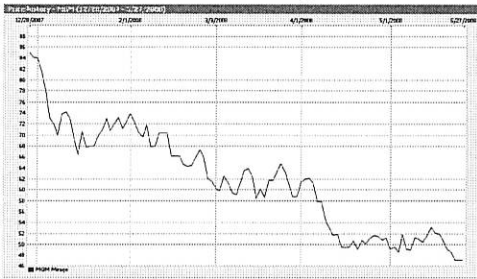
Northeast and south central gaming zones

On Nov. 17, Sumner Gaming and Resorts (Harrah's) withdrew its application to be the manager in south central zone. On Dec. 4, Kansas Entertainment (Hard Rock) withdrew its application to be the manager in the northeast zone.

In advance of the Review Board's vote, publicly traded gaming companies MGM Mirage, Pinnacle and Sands withdrew from consideration to be a casino manager.

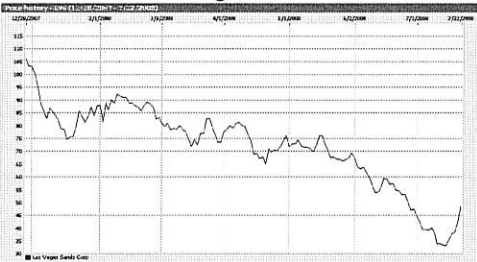


MGM Mirage



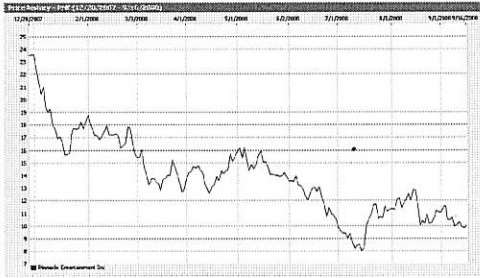
Closed at \$85.06 on December 28, 2007
 Closed at \$47.15 on May 27, 2008
 Closed at \$13.39 on January 9, 2009

Las Vegas Sands



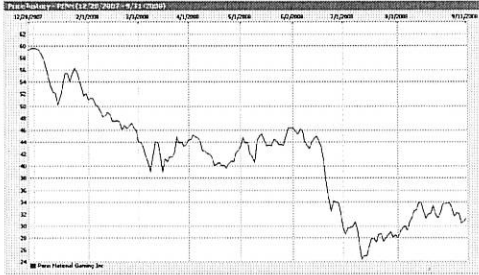
Closed at \$106.15 on December 28, 2007
 Closed at \$49.00 on July 22, 2008
 Closed at \$6.99 on January 9, 2009

Pinnacle Entertainment



Closed at \$23.46 on December 28, 2007
 Closed at \$10.09 on September 16, 2008
 Closed at \$7.42 on January 9, 2009

Penn National Gaming



Closed at \$59.33 on December 28, 2007
 Closed at \$31.37 on September 11, 2008
 Closed at \$21.04 on January 9, 2009

WHY DID PINNACLE (AND LVS AND MGM) DROP OUT?

Hard to speculate on actual reasons, but:

- Obvious challenges of securing financing at a reasonable cost of capital
- Risk of lawsuits on non-performance
- Commitments to other projects made before the economic environment changed
- General uncertainty as to how long the current economic slowdown will last and how significant the impacts on gaming will be

---Slide by William Eadington, Ph.D., Univ. Nevada-Reno



KRGC budget

- Pari-mutuel direct expenses
 - Veterinarians, stewards, racing judges
- Pari-mutuel in-direct expenses
 - All other track positions, Topeka staff and overhead
- Gaming direct expenses
 - All casino-based staff and overhead
- Gaming in-direct expenses
 - Topeka-based staff and overhead



Pari-mutuel direct expenses

By law, expenses for certain track staff are reimbursed to the KRGC:

- * veterinarians
(KSA 74-8806(f))
- * stewards and racing judges
(KSA 74-8818(a))



Gaming direct expenses

None of these have been incurred or billed yet as no gaming facilities are operating in Kansas. These would include security, licensing and auditing staff assigned to work in the casino locations. All costs incurred for these staff and capital expenses will be billed to the facility.



KRGC in-direct expenses

All Topeka-based expenses are split 75% to gaming and 25% to pari-mutuel for reimbursement. This includes salaries for employees in both efforts, rent, travel and capital and operating expenses. Persons whose job is exclusively gaming or exclusively pari-mutuel are paid exclusively from those funding sources.



Pari-mutuel in-direct expenses

The funding source for these expenses is the state racing fund, which is financed by the pari-mutuel tax (KSA 74-8823) on wagers placed on live and simulcast racing at Kansas tracks.



Gaming in-direct expenses

The KRGC has created a formula for charging its in-direct expenses.

- * 15% of all in-direct expenses are charged proportionally to the all operating facilities.
- * 85% of all in-direct expenses are charged based on the percentage of gross gaming revenue retained by the facility after payment of state's share



In-direct payment percentage per casino and race track facility

- Woodlands: \$25.4m in ggr
 - \$10.2m in retained ggr: 4.78%
- Camptown: \$24.1m in ggr
 - \$9.6m in retained ggr: 4.66%
- SE zone casino: \$30.2m in ggr
 - \$22.1m in retained ggr: 7.45%
- SW zone casino: \$52.5m in ggr
 - \$38.3m in retained ggr: 11.1%
- SC zone casino: \$186.5m in ggr
 - \$136.2m in retained ggr: 33.04%
- NE zone casino: \$222.7m in ggr
 - \$162.6m in retained ggr: 38.97%



Other states' financing of gaming regulation

- | | |
|---------------|-------------------------|
| Colorado: | Appropriations |
| Illinois: | Appropriations |
| Indiana: | Reimbursement |
| Iowa: | Fees and appropriations |
| Kansas: | Reimbursement |
| Louisiana: | Appropriations |
| Michigan: | Reimbursement |
| Missouri: | Reimbursement and fees |
| Mississippi: | Fees and appropriations |
| Nevada: | Appropriations |
| New Jersey: | Fees |
| Pennsylvania: | Reimbursement and fees |
| South Dakota: | Fees and fines |



KRGC staffing and salary costs

Prior to Woodlands closing in August 2008, KRGC staffing and cost:

- * 52.0 FTE
- * \$143,617 per pay period



Effect of Woodlands lay-off

- * 9.0 FTE reduction
- * \$27,689 reduction per pay period



Effect of 2009 KRGC lay-off

- * 11.0 reduction FTE
- * \$26,516 reduction per pay period



Effect of 2009 KRGC time reductions

- * 3.6 FTE reduction
- * \$8,675 reduction per pay period



Effect of KRGC voluntary departures

- * 7.0 FTE reduction
- * \$20,373 reduction per pay period

Plus, elimination of commissioners' stipend:

- * \$4,828 reduction per pay period



Total effect of KRGC staff changes

Before Woodlands closing:

- * 52.0 FTE
- * \$143,617 per pay period

After all changes:

- * 21.4 FTE (-58.8% change)
- * \$55,536 ppp (-61.3% change)



How KRGC finances into the future

- Continue to access \$5 million PMIB line of credit until casino managers are finalized and reimbursement can be made
- Reimbursement from Boot Hill casino
- Reimbursement from Review Board operations
- Reimbursement on cost of background investigations offset security expenses



Current KRGC responsibilities

- Review Board activities in 2009
- Likely fair meets in Eureka and Anthony
- Preparation for opening of Boot Hill casino
- Working with and investigation of gaming suppliers who will sell/lease products
- Legislative session responsibilities
- Illegal gaming investigations and reviews



Thoughts on regulation

"In order to have any effective game, there has to be effective regulatory control. ... The secret to having a successful gaming industry is tough regulatory control."



Thoughts on regulation

"In order to have any effective game, there has to be effective regulatory control. ... The secret to having a successful gaming industry is tough regulatory control."

Frank Fahrenkopf, president
American Gaming Association
The Atlantic Monthly
September 2007



Conclusion

- Thank You
- Questions?
- Contact:
smartino@ksracing.org
785.296.5800



Briefing on Alcoholic Beverage Control Division
To
The House Committee on Federal and State Affairs

By Thomas W. Groneman
Director

January 22, 2009

Mr. Chairman, Members of the Committee, it is my pleasure to appear before you today to present a brief overview of the Alcoholic Beverage Control Division (ABC).

The number one priority of the Alcoholic Beverage Control Division is to fairly administer and enforce the liquor laws in Kansas to ensure compliance and to maintain a level playing field among all licensees. Also, as part of the Department of Revenue, it is our duty to see that all applicable liquor taxes due and owing are collected.

The division is divided into three organizational units: licensing, administration and enforcement. Licensing is functionally part of the Customer Relations Bureau within the Division of Tax Operations, but under the authority of the Director of ABC for issues related to liquor licenses.

In 2008, licensing processed in excess of 4,100 renewal and new license applications for retail liquor stores, distributors, manufacturers, farm wineries, microbreweries, on-premise establishments (class "A" clubs, class "B" clubs and Drinking Establishments), caterers, suppliers, winery shipping permits and temporary permit holders. Licenses are issued and renewed on an annual basis. Following is a breakdown of licenses by license type for years 2006 through 2009:

License Type	2006	2007	2008	2009
Retail Liquor Store	724	731	734	742
Class "A" Clubs	315	315	300	302
Class "B" Clubs	155	150	149	136
Drinking Establishments	1,565	1,674	1,637	1,672
Caterers	117	120	137	143
Beer Distributors	44	42	41	40
Spirits Distributors	7	6	17	15
Wine Distributors	11	8	16	15
Microbreweries	12	14	16	18
Farm Wineries	16	18	19	22
Outlets	5	6	6	8
Winery Shipping Permits				
In-State			2	1
Out-of-State			38	57
Warehouses	4	4	4	4
Manufacturers	2	2	3	4
Temporary Permits	309	328	276	265
Supplier Permits	547	565	626	693
TOTAL	3,833	3,983	4,021	4,137

In addition, licensing collects gallonage taxes, liquor enforcement taxes, liquor excise taxes, sales taxes and withholding taxes. The following liquor related taxes were collected during FY2006-FY2009.

Gallonage Tax Rates:

Alcohol/Spirits	\$2.50 per gallon
Fortified Wine	.75 per gallon
Light Wine	.30 per gallon
Beer/CMB	.18 per gallon

Tax Type	FY 2006	FY 2007	FY 2008	FY 2009 (6 mo)
Gallonage - Beer	\$8,195,566	\$8,387,024	\$8,436,961	\$4,582,771
Gallonage - Cereal Malt Beverage	\$2,089,660	\$2,090,992	\$2,228,227	\$1,071,191
Gallonage - Alcohol and Spirits*	\$8,323,920	\$8,480,294	\$8,950,418	\$4,648,284
Gallonage - Wine	\$1,040,218	\$1,045,683	\$1,086,866	\$587,242
Gallonage Tax Total	\$19,649,364	\$20,003,993	\$20,702,472	\$10,889,488
Liquor Enforcement	\$44,264,770	\$47,138,288	\$49,982,534	\$26,888,676
Liquor Excise**	\$32,051,923	\$34,268,848	\$35,613,659	\$18,257,521
TOTAL	\$95,966,057	\$101,411,129	\$106,298,665	\$56,035,685

* 10% of gallonage tax on alcohol and spirits goes to SRS Community Alcoholism and Intoxication Program and the remainder to the state general fund.

** 70% of Liquor Excise Tax goes to Local Alcoholic Liquor fund, 5% goes to the SRS Community Intoxication Program and 25% to the state general fund

Total alcohol related revenue collected for FY2007 - FY2009 (6 months):

Revenue Source	FY 2007	FY 2008	FY 2009
All Liquor Licensing and Registration Fees	\$2,588,600	\$2,620,664	\$1,426,663
Supplier's Permit	\$19,550	\$18,285	\$3,915
All Label Fees	\$754,218	\$717,449	\$133,518
Cereal Malt Beverage Retail Stamp	\$80,225	\$78,405	\$18,932
Liquor Drink Tax	\$34,268,848	\$35,613,659	\$18,257,521
Liquor Enforcement Tax	\$47,138,288	\$49,982,534	\$26,888,676
Gallonage Tax	\$20,003,993	\$20,683,088	\$10,889,487
ABC Liquor Fines	\$455,065	\$238,095	\$163,683
ABC REVENUE TOTAL (Liquor Only)	\$105,308,787	\$109,952,179	\$57,782,395

The ABC administrative unit performs general staff support for the Director and Chief Enforcement Officer and related work such as budget preparation, personnel record keeping, property management, records management, performs background investigations on licensees and coordinates the division's activities. ABC has 37 full-time funded positions including one Chief Enforcement Officer and 20 Enforcement Agents. Additionally, 10 temporary positions funded through an interagency agreement with SRS for cigarette and tobacco enforcement activities. FY08 and FY09 budgets for the division are as follows:

	FY 2008 Budget	FY 2008 Actual	FY 2009 Budget
Salary & Wages	\$2,259,322	\$2,013,571	\$2,182,634
OOE	\$346,612	\$281,655	\$300,691
TOTAL	\$2,605,934	\$2,295,226	\$2,483,325

The Enforcement unit provides investigative support for the ABC Director and Chief Enforcement Officer. Enforcement agents are certified law enforcement officers. They conduct criminal and administrative investigations to determine compliance with liquor laws. Agents provide training to licensees and local law enforcement officers; conduct controlled buy operations and bar checks; investigate complaints and hidden

ownerships; and perform routine compliance checks. Enforcement works closely with local, state and federal law enforcement agencies as well as the Division of Taxation in carrying out these activities. Investigations resulting in alleged violations are presented to the County or District Attorney for criminal prosecution against the individual, and/or the ABC Assistant Attorney General (AAG) for administrative action against the licensee.

	FY 2007	FY 2008	FY 2009 (6 mo)
INSPECTIONS			
Number Performed	1647	1757	1292
Violations	83	78	79
Compliance Rate	95%	96%	94%
SALES TO MINORS			
Random Controlled Buys Performed	529	537	269
Violations	149	110	49
Compliance Rate	72%	80%	82%
Chosen Controlled Buys Performed	399	615	196
Violations	112	104	25
Compliance Rate	72%	83%	87%

The Licensee Administrative Action (LAA) section is staffed by the Assistant Attorney General (AAG) assigned to the ABC, a legal assistant and two support staff. The AAG reviews the cases presented by the enforcement section and local law enforcement agencies to determine the appropriateness of the charges and administratively prosecutes violations of the liquor laws before the Director or his designee. The Director and the AAG are responsible for the disposition of all liquor related administrative citations brought forth by the investigative activities of the Enforcement section and other law enforcement agencies. Following are the number of citations issued for FY2006 through FY2009 and the total fines collected for those years:

	FY 2007	FY 2008	FY 2009 (6 mo)
Liquor Citations	550	437	119
Tax Orders	276	143	107
Total Liquor Citations Issued	826	580	226
Liquor Citations	\$273,614	\$105,275	\$98,683
Tax Orders	\$181,451	\$132,820	\$65,000
Total Liquor Fines Collected	\$455,065	\$238,095	\$163,683

Over the years the ABC has been assigned other duties, including conducting the compliance checks required under the Synar amendment. Under Synar the state must maintain a minimum compliance rate of 80% for sales of cigarettes to minor's or risk losing a portion of the block grant monies allocated to SRS under the agreement. During FFY2008 ABC agents and Underage Cooperating Individuals (UCI's) performed 413 random buy attempts resulting in 66 sales for an 84% compliance rate. This compares to FFY 2006 and FFY 2007 results as follows:

	FFY 2006	FFY 2007	FFY 2008
Attempted buys	447	580	413
Sales made	88	70	66
Compliance rate	80.31%	88.10%	84%

As mentioned earlier, ABC and SRS have entered into an Interagency Agreement creating a Cigarette and Tobacco Enforcement Team (CATE). The CATE team began in July 2007 and is funded annually through funds received from SRS. The objective of the CATE team is to strengthen the enforcement of cigarette and tobacco laws, ensure compliance with the Synar Amendment and protect federal block grant funds received by SRS.

The CATE inspectors perform statewide cigarette and tobacco enforcement activities aimed at reducing sales of cigarette and tobacco products to minors. CATE conducts controlled buy visits at all youth accessible retail licensee locations. Targeted enforcement revisits are made at locations that have failed prior enforcement visits.

The CATE team currently consists of eight (8) statewide inspectors conducting enforcement activities; along with a staff attorney and administrative assistant.

In addition, ABC agents are responsible for levying drug tax assessments across the state. During FY 2008 agents made 555 drug tax assessments totaling \$7,972,261 resulting in collections of \$1,180,969.

	FY 2007	FY 2008	FY 2009 (6 mo)
Assessments	433	555	237
Amount	\$4,621,953	\$7,972,261	\$3,783,322
Collected	\$1,051,508	\$1,180,969	\$488,416

ENCLOSURES:

Kansas Liquor-by-the-Drink Map

Map of Active Kansas Liquor Licenses: Off-Premise Retailers

Map of Active Kansas Liquor Licenses: On-Premise Retailers

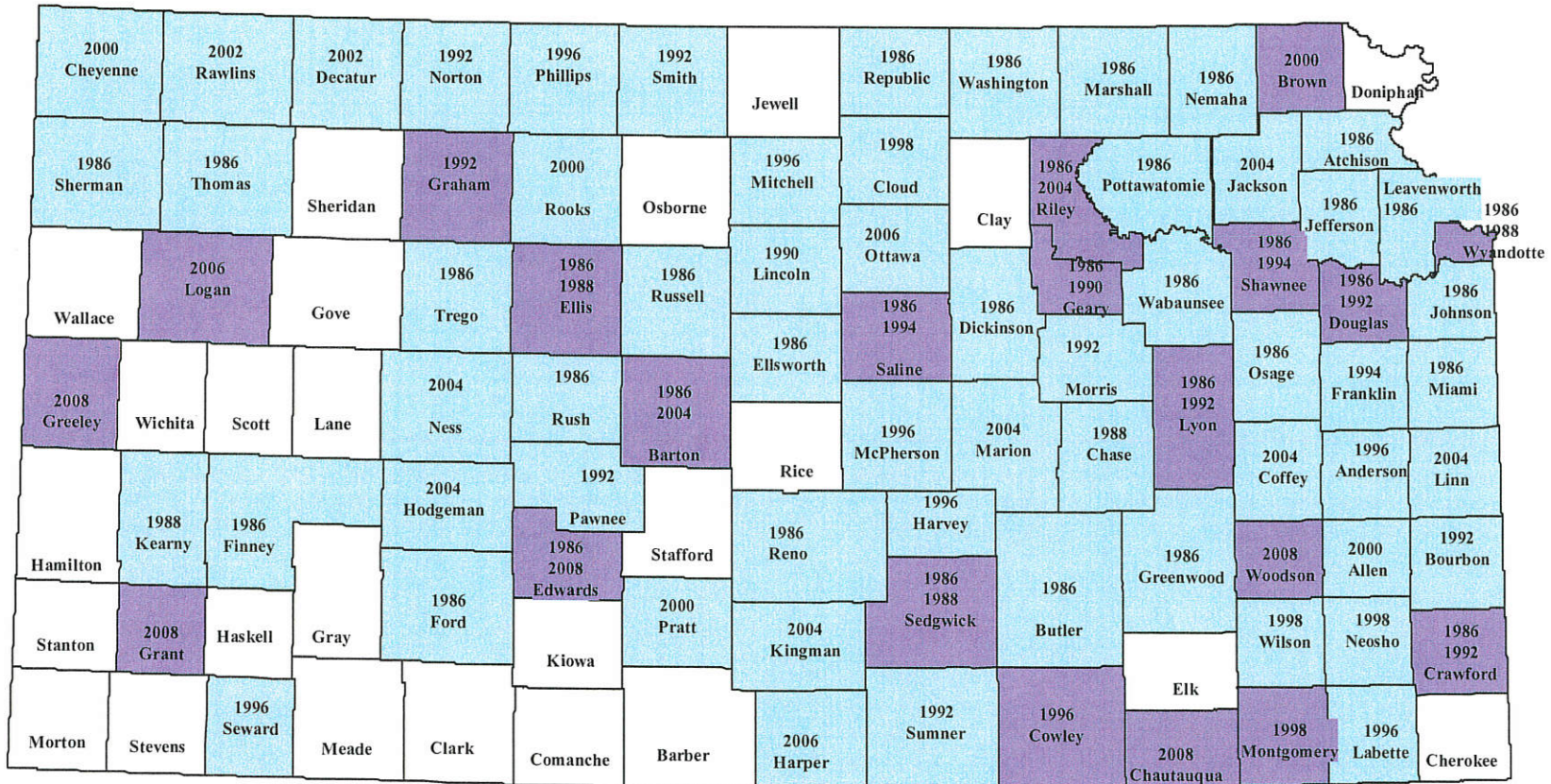
Map of Active Kansas Liquor Licenses: Distributors

Map of Active Kansas Liquor Licenses: Farm Wineries and Outlets

Map of Active Kansas Liquor Licenses: Microbreweries

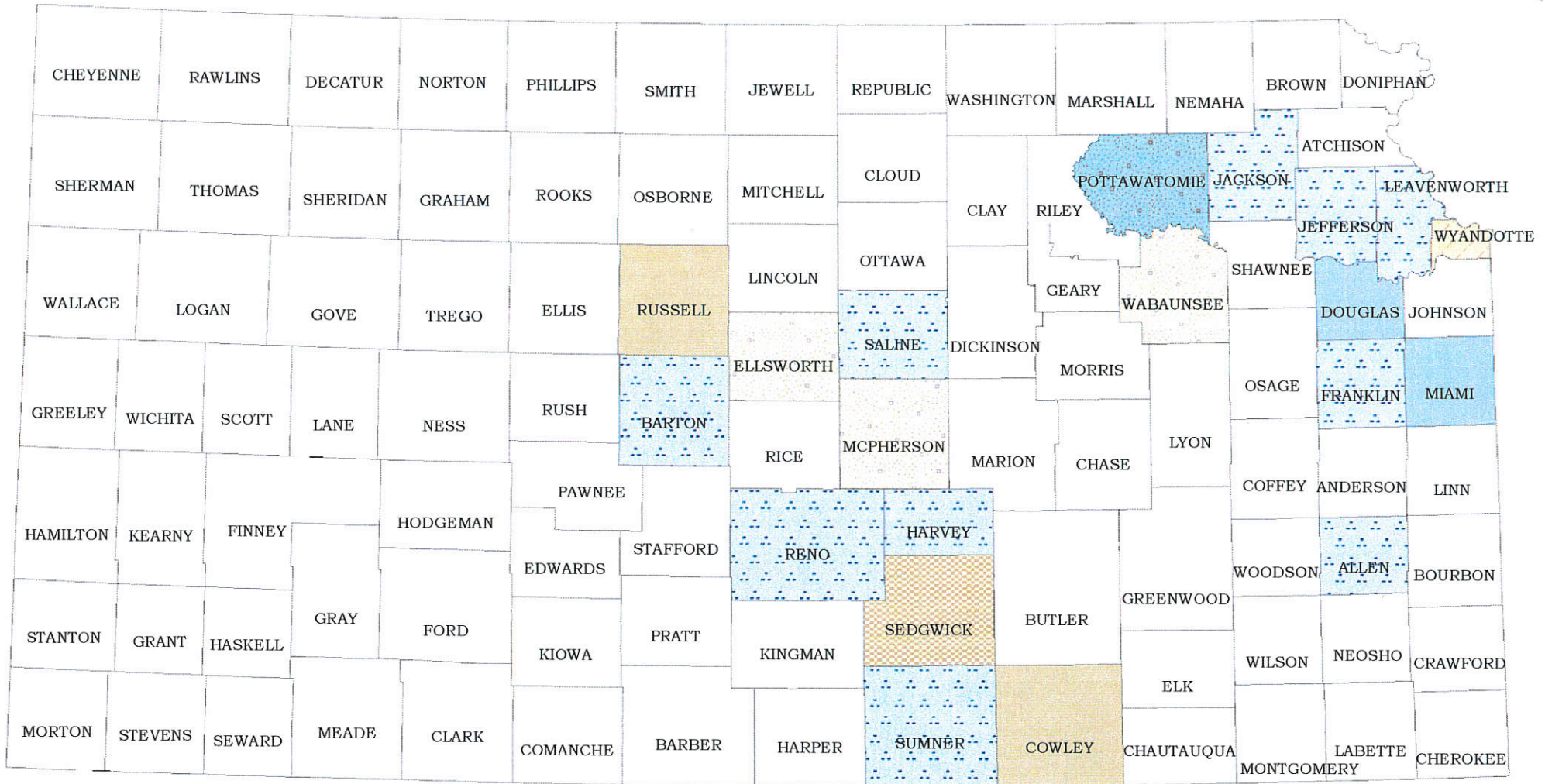
Kansas Liquor-by-the-Drink November 2008

No liquor-by-the-drink
 Liquor-by-the-drink allowed with 30% food requirement
 Liquor-by-the-drink allowed with no food requirement



This map identifies the status of liquor by the drink in all Kansas counties. It includes the year the county voted for liquor-by-the-drink, and where applicable, the year the county removed the 30% food requirement. Last updated 12-15-08.

Active Kansas Farm Winery and Outlet Licenses



# of Counties	# of Licenses Per County
(10)	One Farm Winery
(1)	Two Farm Wineries
(2)	Three Farm Wineries
(3)	One Farm Winery and One Farm Winery Outlet
(2)	Two Farm Wineries and One Farm Winery Outlet
(1)	Two Farm Wineries and Two Farm Winery Outlets
(1)	Three Farm Wineries and One Farm Winery Outlet

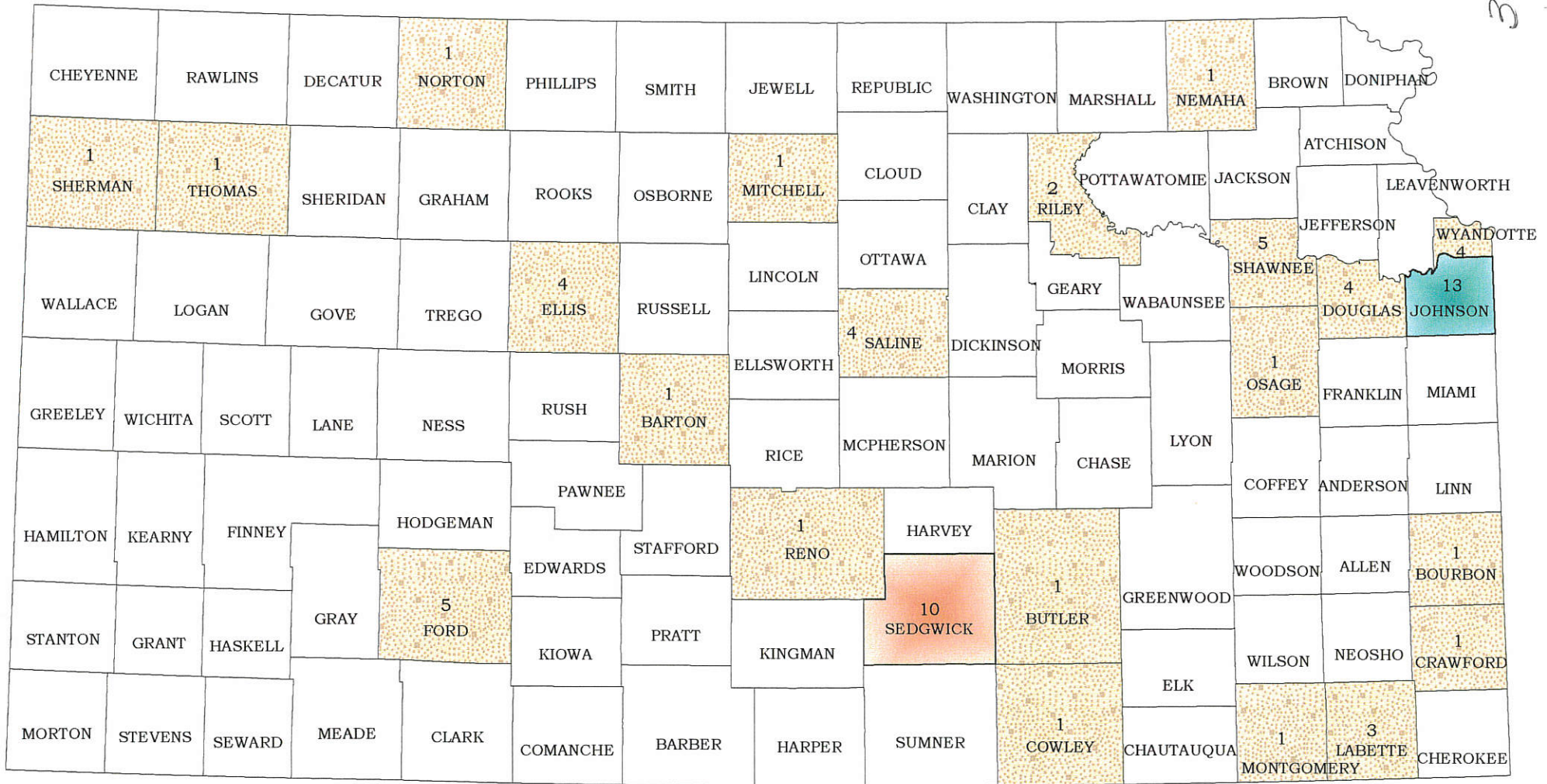
The data used for this map was derived from the Kansas Department of Revenue, Alcoholic Beverage Control Division, Liquor Licensing Database for January 2009

Total: 30 Active Farm Winery Licenses, 8 Active Farm Winery Outlet Licenses.

January 14, 2009
Map #AC09-003

Active Kansas Distributor Licenses




3-9



of Counties

of Licenses Per County

January 14, 2009
Map #AC09-005

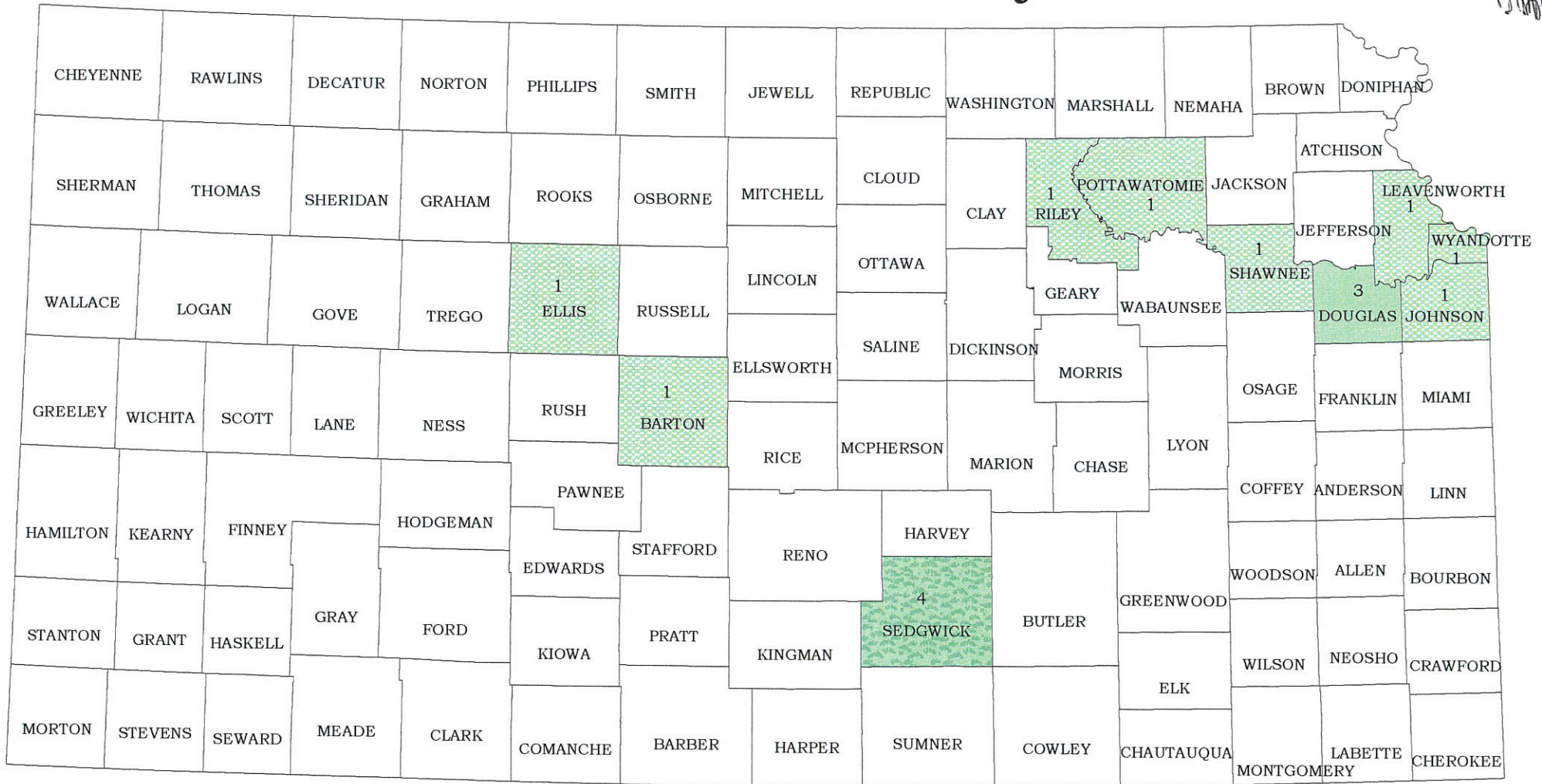
- (21)  County has From One-to-Five Distributor Licenses
- (1)  County has Ten Distributor Licenses
- (1)  County has Thirteen Distributor Licenses

Total: 67 Active Distributor Licenses

The data used for this map was derived from the Kansas Department of Revenue, Alcoholic Beverage Control Division, Liquor Licensing Database for January 2009

Active Kansas Microbrewery Licenses

3-10
ST



January 14, 2009
Map #AC09-004

of Counties

(8)

(1)

(1)

of Licenses Per County



County has One Microbrewery License



County has Three Microbrewery Licenses



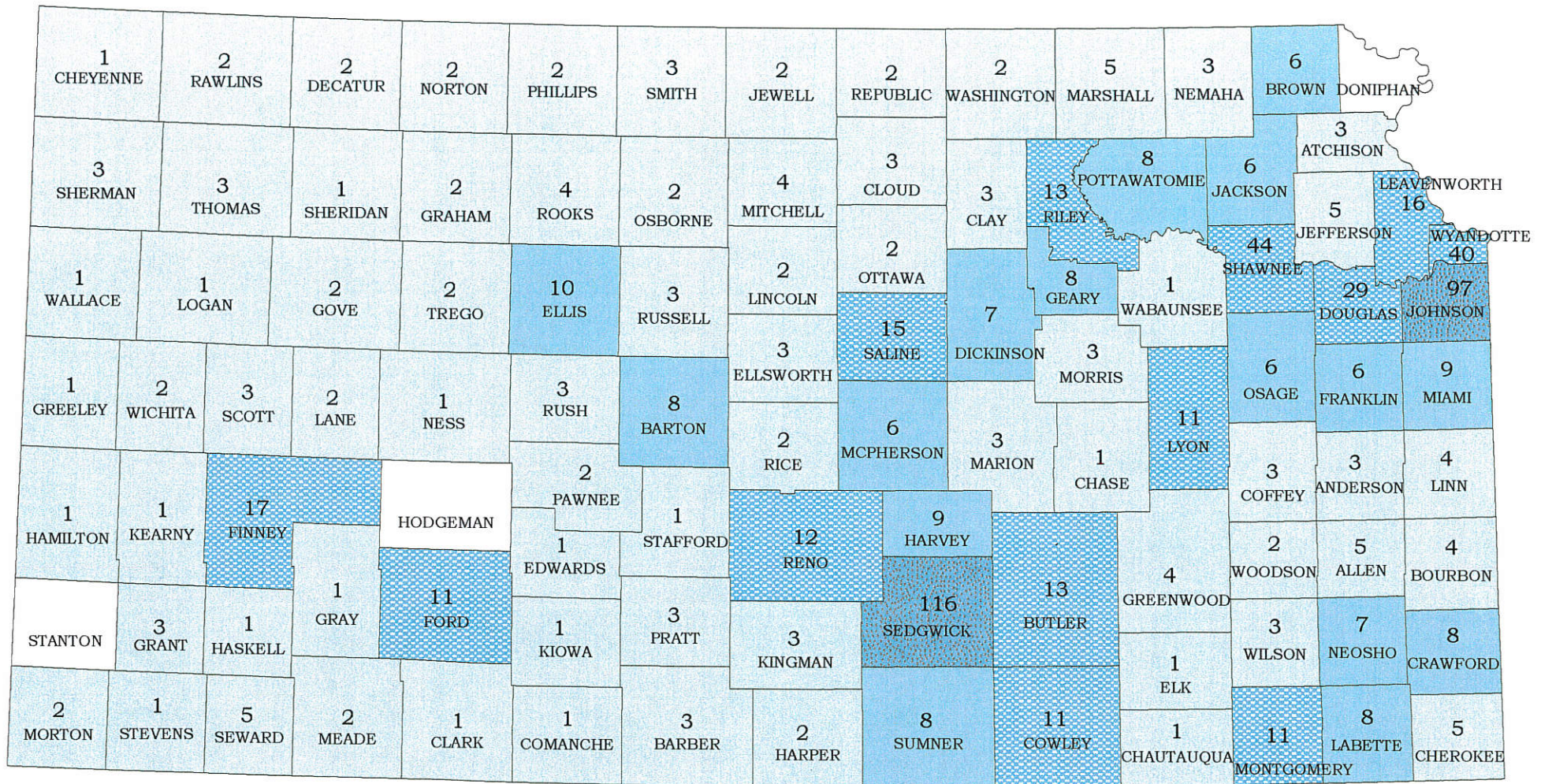
County has Four Microbrewery Licenses

The data used for this map was derived from the Kansas Department of Revenue, Alcoholic Beverage Control Division, Liquor Licensing Database for January 2009

Total: 15 Active Microbrewery Licenses

Active Kansas Off-Premise Licenses

3-11



# of Counties	# of Licenses Per County
(3)	0
(71)	1 - 5
(16)	6 - 10
(13)	11 - 50
(2)	51 - 120

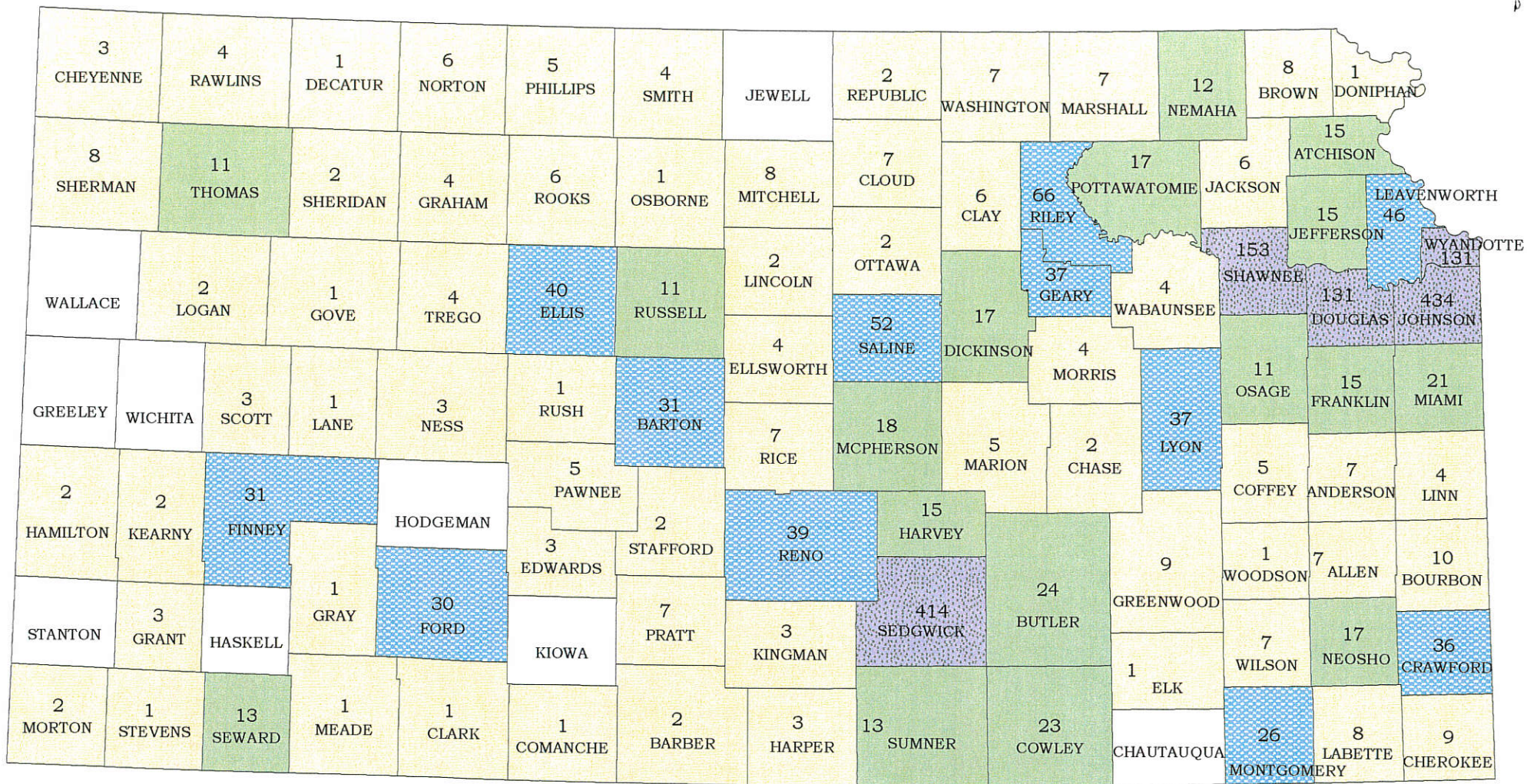
January 14, 2009
Map #AC09-002

The data used for this map was derived from the Kansas Department of Revenue, Alcoholic Beverage Control Division, Liquor Licensing Database for January 2009

Total: 743 Active Off-Premise Licenses

Active Kansas On-Premise Licenses

3-12



January 14, 2009
Map #AC09-001



Total: 2,250 Active On-Premise Licenses

The data used for this map was derived from the Kansas Department of Revenue, Alcoholic Beverage Control Division, Liquor Licensing Database for January 2009