

MINUTES OF THE HOUSE FEDERAL AND STATE AFFAIRS COMMITTEE

The meeting was called to order by Chairman Melvin Neufeld at 1:30 p.m. on March 10, 2009, in Room 143-N of the Capitol.

All members were present except:

Representative Steve Huebert- excused
Representative Melvin Neufeld- excused
Representative Mike Peterson- excused

Committee staff present:

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

Conferees appearing before the Committee:

Ed Van Petten, Executive Director, Kansas Lottery
Keith Kocher, Director, Gaming Facilities of the Kansas Lottery

Others attending:

See attached list.

Attachments

Ed Van Petten, Executive Director, Kansas Lottery (Attachment 1)
Keith Kocher, Director, Gaming Facilities of the Kansas Lottery

In the absence of Chairman Neufeld, Vice-Chairman Kiegerl brought the meeting to order. There were no bill introductions.

Representative Grant moved for the approval of the minutes of February 25, February 26, March 2, and March 4, 2009. Motion was seconded by Representative Olson. Motion carried.

Mr. Ed Van Petten, Executive Director of the Kansas Lottery, presented an update on lottery sales which are currently showing a decided decrease (Attachment 1). This lack of sales is contributed to the loss of 50 retailers which have gone out of business and the downturn in the economy. Massachusetts has experienced a downturn of more than 15% while Kansas is currently showing one of the least decreases. The majority of lottery ticket purchasers in Kansas (54%) appear to be from families with net incomes of more than \$80,000 per year.

Mr. Keith Kocher, Director of Gaming Facilities of the Kansas Lottery, included his testimony in Attachment 1). Statistics show that smoking bans in casinos reduces the revenue by ten to twenty percent. A state-wide smoking ban would be considered a deterrent for casino developers considering Kansas for a location. Should the proposed state-wide smoking ban go into effect July 1, 2009, the casino in Dodge City would be required to be smoke-free.

Applicants for a casino in Northeast Kansas have withdrawn their application due to a downturn in the economy and the unavailability of low-interest loans. In answer to why Mulvane is being considered for a casino site, Mr. Kocher informed the Committee that the City of Mulvane had issued a letter of endorsement after they annexed adjoining areas to the city.

The next meeting is scheduled for March 11, 2009.

The meeting was adjourned at 2:07 p.m.



Ed Van Petten
Executive Director

Kathleen Sebelius
Governor

**Testimony Before The
House Federal and State Affairs Committee
Agency Update Number 2, March 10, 2009**

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

Mr. Chairman and members of the Committee:

This update supplements testimony presented to the House Federal and State Affairs Committee on January 21, 2009.

I. Sales

We are currently 3.43% behind last year's sales at this time. Sales for FY 2008 totaled nearly \$237 million, the second highest in Lottery history. Projected sales for budget purposes this fiscal year were \$254 million, however at this time we anticipate sales of approximately \$230 million. Both large jackpot games (Powerball and Hot Lotto) were hit on February 28, so we will probably be slower on sales for a couple of weeks, and will probably not gain on last year. We also will request a reduction in the yearly transfer amount from \$74 million to \$69 million.

Online sales (terminal issued tickets) are showing the larger decrease of over 6%, while instants are off .33%. The Kansas Hold'em monitor game continues to slowly grow and is showing about an 8% growth from last year with Hot Lotto showing growth of about 17%. We are hopeful that the addition of Florida and the changes made in the Powerball game, in January, will generate additional interest in that game.

II. Promotions

We are presently marketing a ticket featuring a Big Dog motorcycle, made in Wichita, Kansas. We try to have at least one ticket at retail at all times featuring a Kansas product, an event in Kansas or tourism in Kansas. The next ticket to launch of this type will be one featuring a Cobalt Boat, made in Neodesha, Kansas. After that we will launch a ticket featuring the Sunflower State Games, with the hope that our advertising will raise awareness of the games statewide. Last year was the first year of our partnership, and all parties viewed it as very successful.

This summer we will introduce a ticket featuring the scenic byways of Kansas, called "Painted Byways." We have partnered with the Kansas Arts Commission and Stan Herd, to promote art statewide. We have commissioned nine portraits from Stan, one from each of our nine byways, to be given away in a second chance drawing. That drawing is tentatively scheduled in November.

As I mentioned previously, we continue with the game "Midwest Millions" which is in its second iteration at this time. This is a multistate scratch game we market with the Iowa Lottery, and we were the first lotteries to ever market a multistate scratch game. At the second chance drawing here in January, a Kansas player won \$500,000. The second drawing for this year's game is April 17, in Des Moines. The third iteration is being planned with a September launch, at the State Fair, as has been the case the past two years.

III. Expanded Gaming

A. Southeast Gaming Zone (Crawford and Cherokee counties)

The application process was extended with a current deadline of April 21, 2009. To date we have heard of no real interest in applications for that Zone. So far as we are aware HB 2187, which was introduced to (among other things) reduce the initial investment in infrastructure and privilege fee to match those in the Southwest Gaming Zone, has not been worked.

B. South Central Gaming Zone(Sumner County)

Applications are due no later than April 1, 2009. The Lottery has received several inquiries and has been contacted by credible sources that have left us confident one or more applications will in fact be submitted in this Zone. To date no applications have actually been filed and all communications have been confidential except that one potential applicant has publicly stated its intent to apply in this Zone. MRV Equity Ventures has stated that it and an as yet unnamed partner will apply in this Zone. MRV was in partnership with Harrah's during the first round of bids, which applicant was chosen by the Lottery Gaming Facility Review Board to manage a casino near Mulvane. Prior to final approval, however, the partnership withdrew its application.

C. Northeast Gaming Zone (Wyandotte County)

Again, the Lottery has re-let bids in the Northeast Gaming Zone with an application deadline of April 1, 2009. As with the South Central Gaming Zone the Lottery has received numerous inquiries, but as of this moment no applications have been filed. Only one entity has publicly stated its intent to apply, that being the Kansas Speedway and Cordish partnership that was originally awarded the contract during the first round, but withdrew prior to final approval.

D. Southwest Gaming Zone (Ford County)

As you will recall, Boot Hill Casino and Resort was awarded the contract for its proposal in Dodge City, Kansas. Construction of "Phase I" of the gaming facility is well under way with something in excess of one-million cubic yards of earth having been moved and the floor and foundation are now nearly complete. The Lottery expects to receive Boot Hill Casino's basic proposed floor plan sometime this week.

Approximately 575 slot machines and 75 table game positions are expected to be in operation in the initial phase, along with one or more restaurants and other amenities. The facility is slated to open no later than December 4, 2009 but if all goes as planned the manager may have a "soft opening" sometime in November.

The City of Dodge City and Boot Hill Casino continue to work on various details related to the project, including infrastructure (roads, sewer, water, power, etc.). In addition, Dodge City is in the process of bidding out construction for an "events center," which will be located immediately adjacent to the casino. The events center has been in the planning stages for years. Early in the casino manager application process the City of Dodge City agreed with both casino manager applicants in this Zone that the events center would be located next to whichever facility won the bid. The parties are working with one another to try and assure the two facilities complement each other.

"Phase II" of the project is to be completed no later than February 4, 2012. The second phase is projected to include the final build-out of the hotel, conference center, spa, swimming pool, and other ancillary facilities. The total number of slot machines will be approximately 875 with 155 table game positions.

E. Racetrack Gaming Facilities

Other than legislative matters, there is nothing new to report regarding the racetrack gaming facilities authorized at parimutuel licensee locations. HB 2187 was filed in February seeking to amend the KELA by raising each racetrack gaming facility manager's share of net gaming machine income from 25% to 43% and to allow dual ownership of a racetrack gaming facility and a lottery gaming facility in the Southeast Gaming Zone (this is the same bill that seeks reduction of the minimum investment in infrastructure in the Southeast Gaming Zone). So far as we know, that bill has not been worked or otherwise scheduled for hearings.

Senate Bill 273 contains the same language that would increase each racetrack gaming facility manager's share of net gaming machine income from 25% to 43%. Furthermore, passage of that bill would re-open the public vote for a racetrack gaming facility in Sedgwick

County (among other things). That bill has been scheduled for hearing in the Senate Federal and State Affairs Committee on March 11, 2009.

F. Central Computer System

There is nothing new to report regarding the central computer system. GTECH has confirmed that barring anything outside of its control it can and will be ready to implement the central system even if the Boot Hills Casino facility in Dodge City opens in November rather than December.