

MINUTES OF THE SENATE FEDERAL AND STATE AFFAIRS

The meeting was called to order by Chairman Pete Brungardt at 10:30 a.m. on January 14, 2009 in Room 136-N of the Capitol.

All members were present.

Committee staff present:

Connie Burns, Administrative Assistant
Julian Efird, Kansas Legislative Research
Dennis Hodgins, Kansas Legislative Research
Jason Long, Kansas Legislative Revisor

Conferees appearing before the committee:

Stephen Martino, Kansas Racing and Gaming Commission
Thomas Groneman, Alcohol and Beverage Control

Others attending:

See attached list.

Stephen Martino, Executive director, Kansas Racing and Gaming Commission, provided the committee an update on the annual report of the Kansas Racing and Gaming Commission. (Attachment 1) The core aspects of KELA for race tracks:

- Kansas Lottery owner of gaming
- 2220 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

The three things needed to manage slots at track is affirmative vote by county, contract with Kansas Lottery Commission, and KRGC approval of contract. The county votes for slot machines at tracks:

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

The race track gross gaming revenue distribution is:

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

Kansas rates 10th at 40%; in revenue retained by race track operators compared to other states that have gaming at race tracks.

The seven member Lottery Gaming Facility Review Board panel was set up by statute under the Expanded Lottery Act; three members were appointed by the Governor, two members by the Speaker of the House, and two members by the President of the Senate. The Review Board panel members are:

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

The Review Board meetings were held in Emporia, Topeka, Columbus, Belle Plaine, Dodge City and Kansas City; the Board met from December 2007 to September 2008. Highlights of the Review Board process:

CONTINUATION SHEET

MINUTES OF THE Senate Federal And State Affairs at 10:30 a.m. on January 14, 2009, in Room 136-N of the Capitol.

- 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

The Review Board votes for the Southeast zone for Penn National Gaming by a 5-2 vote; South central zone for Sumner Gaming and Resorts (Harrah's) by a 4-2-1 vote, Northeast zone for Kansas Entertainment (Hard Rock) by a 4-3 vote, and Southwest zone for Butler National Service Corp (Boot Hill) by a 5-2 vote. Penn National Gaming withdrew its application to be a casino manager on September 11, 2008, for the Southeast gaming zone. On November 17, Sumner Gaming and Resorts (Harrah's) withdrew its application to be the casino manager for the south central gaming zones and on December 4th, Kansas Entertainment (Hard Rock) withdrew its application in the Northeast zone.

The current KRGC responsibilities are:

- 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

Thomas Groneman, Director, Alcohol and Beverage Control provided the committee a brief overview of the Alcoholic Beverage Control Division (ABC) (Attachment 2) The number one priority of the ABC is to fairly administer and enforce the liquor laws in Kansas and to ensure compliance and to maintain a level playing field among all licensees. It is ABC's duty as part of the Department of Revenue to see that all applicable liquor taxes due and owing are collected. The division is divided into three organizational units: licensing, administration and enforcement. In 2008, licensing processed in excess of 4,100 renewal and new license applications for retail liquor stores, distributors, manufacturers, farm wineries, micro breweries, on-premise establishments (class "A" clubs, class "B" clubs and Drinking Establishments), caterers, suppliers, winery shipping permits and temporary permit holders; licenses are renewed on an annual basis.

In addition, licensing collects gallonage taxes, liquor enforcement taxes, liquor excise taxes, sales taxes and withholding taxes; 10% of gallonage tax on alcohol and spirits goes to SRS Community Alcoholism and Intoxication Program and the remainder to the state general fund and 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. 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 licenses and coordinates the division's activities. The Enforcement unit provides investigative support for the ABC Director and Chief Enforcement Officer; Enforcement agents are certified law enforcement officers. The Licensee Administrative Action (LAA) section is staffed by the Assistant Attorney General (AAG) assigned to the ABC, 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.

ABC and SRS have entered into a Memorandum of Agreement (MOA) creating a Cigarette and Tobacco Enforcement Team (CATE). 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. In addition ABC agents are responsible for levying drug tax assessments across the state.

The Director provided maps of Kansas Liquor-by-the-Drink, Active Liquor Licenses: Off-Premise Retailers, On-Premise Retailers, Distributors, Farm Wineries and Outlets, and Microbreweries.

The next meeting is scheduled for January 23, 2009. The meeting was adjourned at 11:45 am

**SENATE FEDERAL AND STATE AFFAIRS COMMITTEE
GUEST LIST**

DATE 1-14-09

NAME	REPRESENTING
Spencer Duncan	capitol connection ks
Phil Bradley	KLBA, etc.
Lori Besch	PMCA of KS
Rebecca P	K.B.W.A.
Shaun Blubitz	KRGC
Joyce Guerrero	Praise Band Potawatomi
Joe Mosimann	Mein Law Firm
Patricia Mann	KRGC
Jay Hall	KRGC
Mike Deines	KRGC
Patricia Litsen	KFC
Kristin Brack	Federico Consulting
John J. Federico	Ameristar
Denny Koch	POWSONEY
John Bohlen	Purcell - Smith
Amy Campbell	KABR
Sean Milice	CAPITOL STRATEGIES

Annual Report of the Kansas Racing and Gaming Commission

*Before the Senate Committee
on Federal and State Affairs
January 14, 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



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: Sumner 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

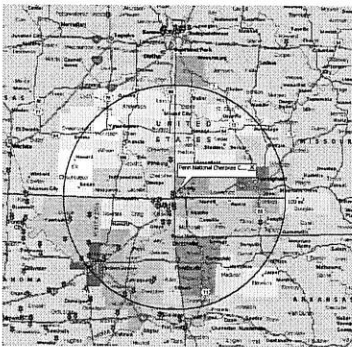


Southeast gaming zone

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

24

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.



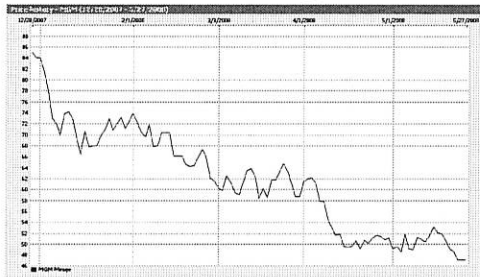
Northeast and south central gaming zones

On Nov. 17, Sunmer 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.

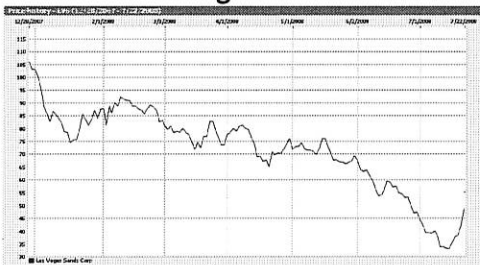


MGM Mirage



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



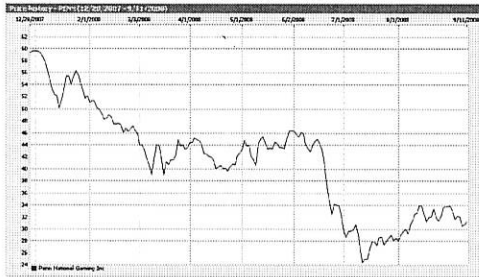
Closed at \$106.15 on December 28, 2007
 Closed at \$49.00 on July 22, 2008
 Closed at \$6.99 on January 9, 2009

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





Kathleen Sebelius, Governor
Joan Wagon, Secretary

www.ksrevenue.org

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

**By Thomas W. Groneman
Director**

January 14, 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:

DIVISION OF ALCOHOLIC BEVERAGE CONTROL
DOCKING STATE OFFICE BUILDING, 915 SW HARRISON ST., TOPEKA, KS 66612-1588
Voice 785-296-7015 Fax 785-296-7185 <http://www.ksrevenue.org/>

Sen Fed & State

Attachment 2
1-14-09

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
Manufacturers	6	6	7	4
Temporary Permits	309	328	276	265
Supplier Permits	547	565	626	693
TOTAL	3,833	3,983	4,021	4,133

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 and 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 a Memorandum of Agreement (MOA) 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.

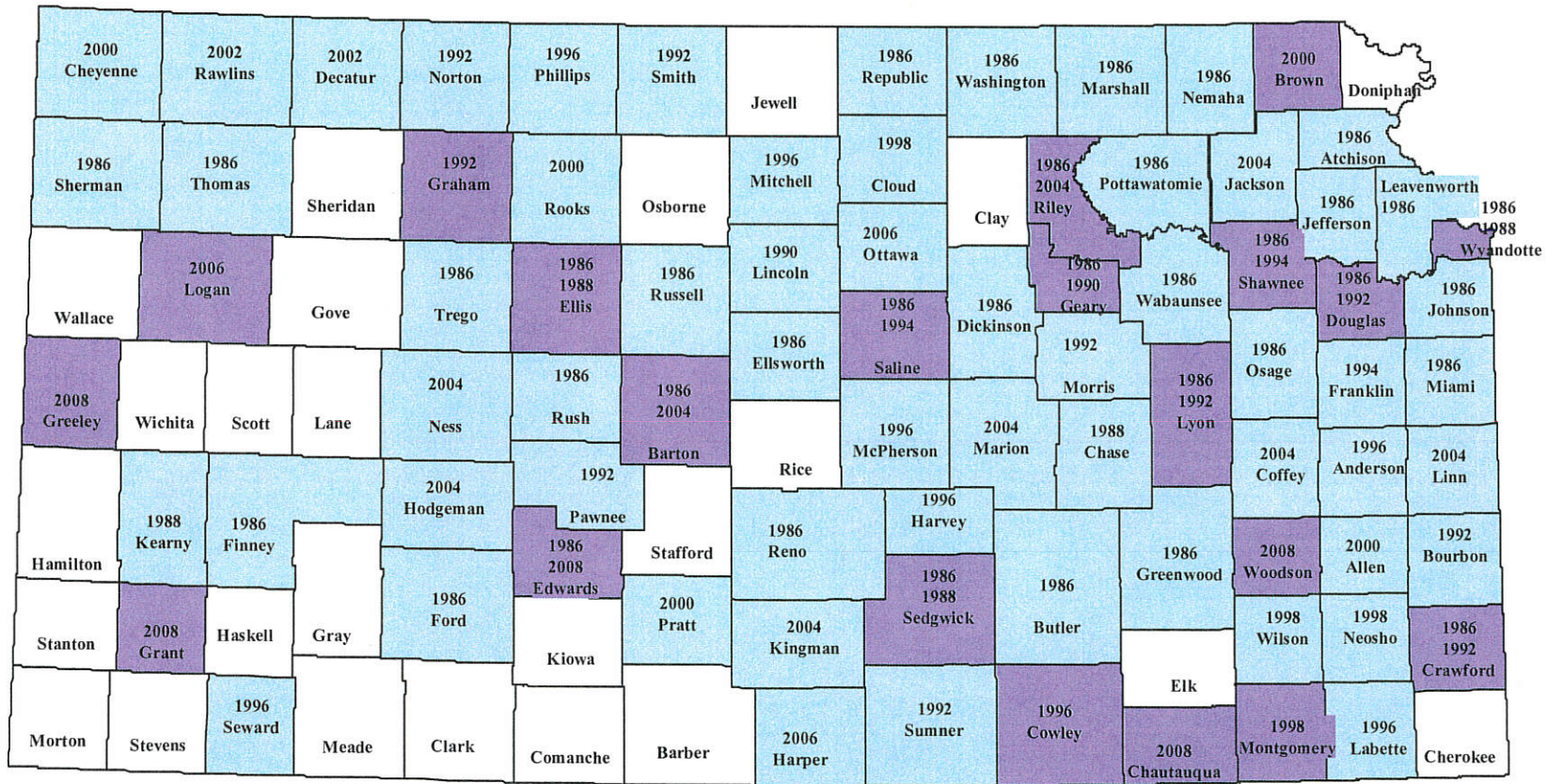
	FY 2007	FY 2008	FY 2009 (6 mo)
Assessments	433	555	237
Amount	\$4,621,953	\$7,972,261	\$3,783,322
Collected	\$1,051,508	\$1,180,969	\$488,416

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

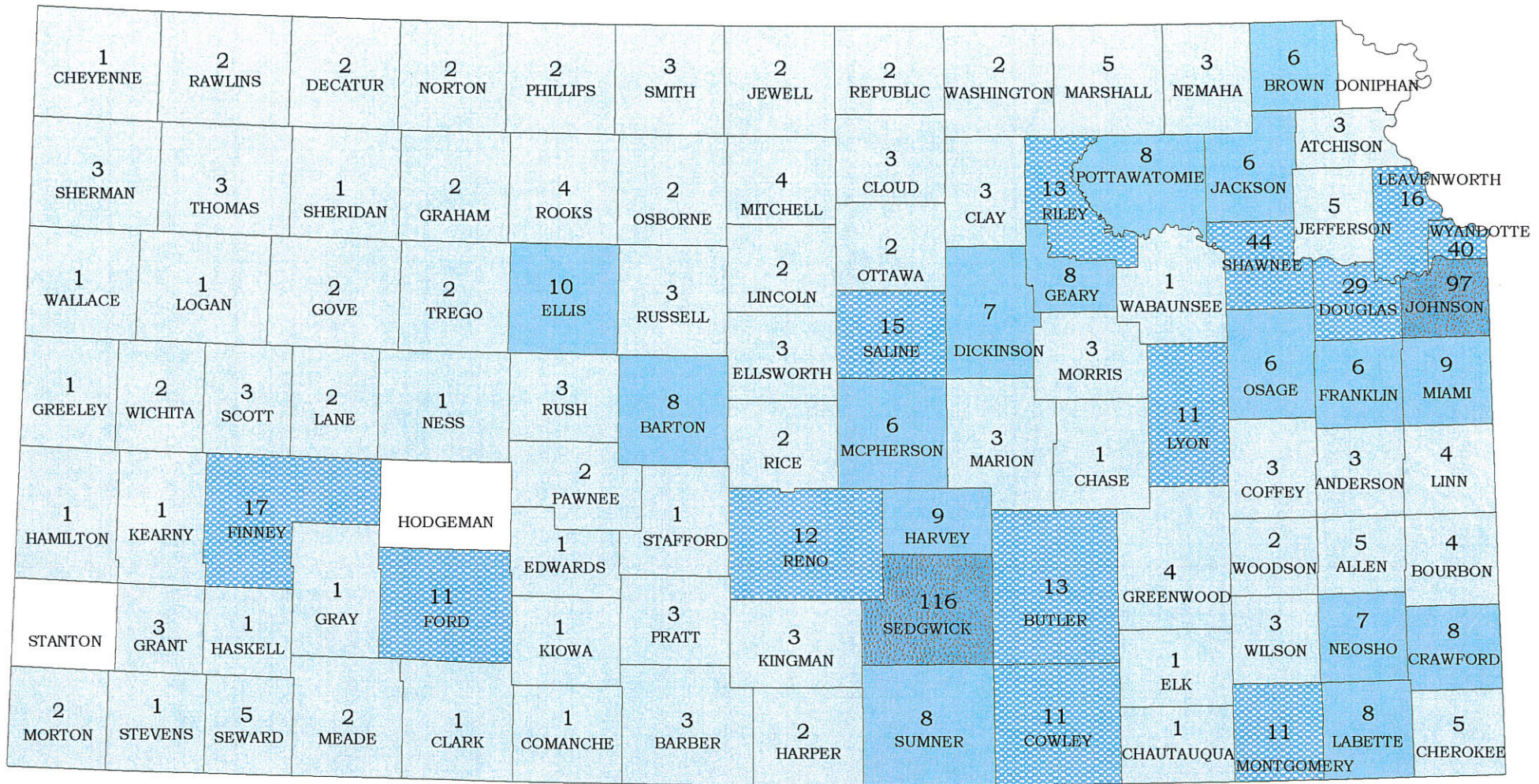
Kansas Liquor-by-the-Drink November 2008

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 Off-Premise Licenses

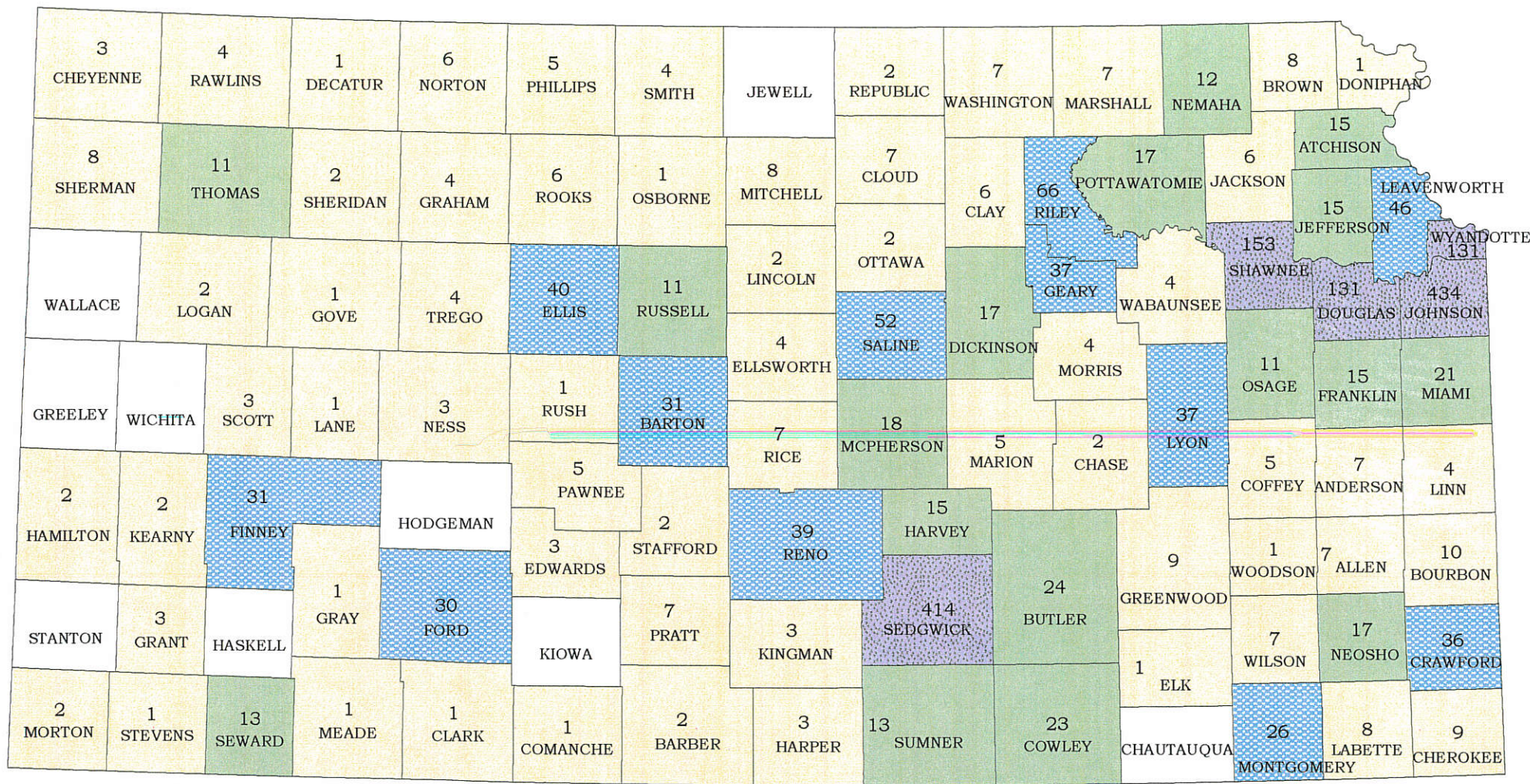


January 14, 2009
Map #AC09-002

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



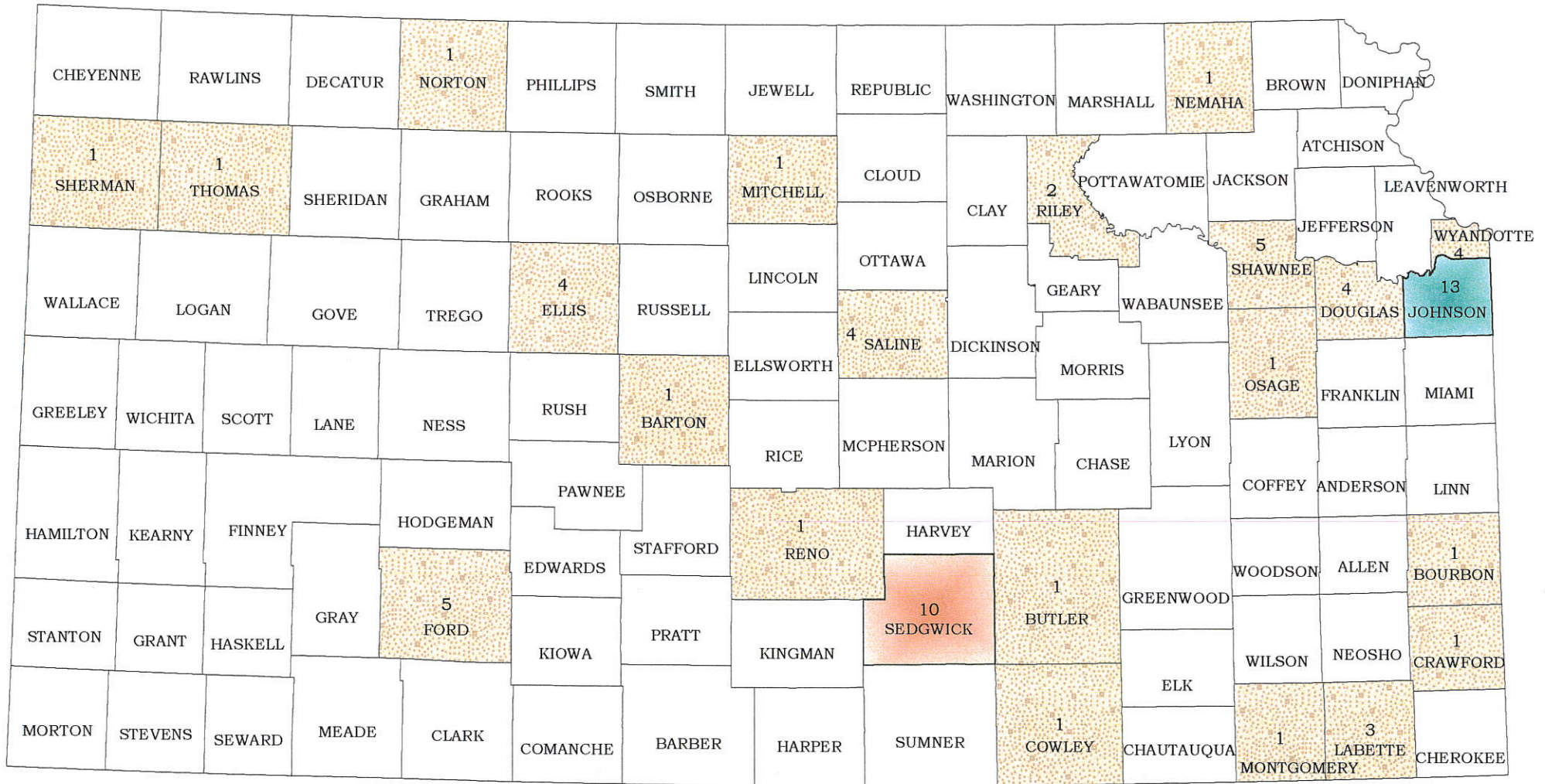
January 14, 2009
Map #AC09-001

# of Counties	# of Licenses Per County
(9)	0
(62)	1 - 10
(17)	11 - 25
(12)	26 - 100
(5)	101 - 434

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




Active Kansas Distributor Licenses



of Counties

of Licenses Per County

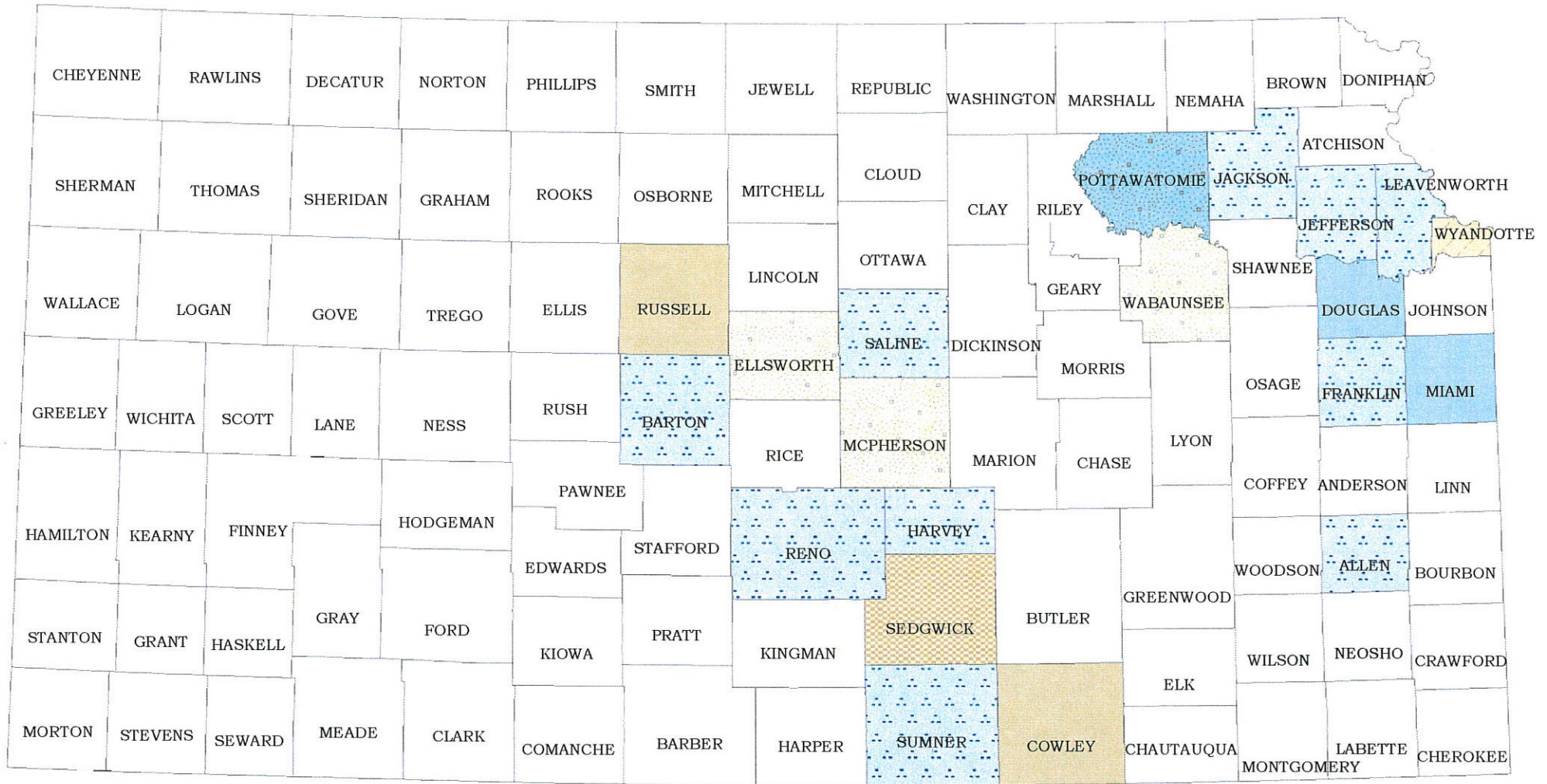
January 14, 2009
Map #AC09-005

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

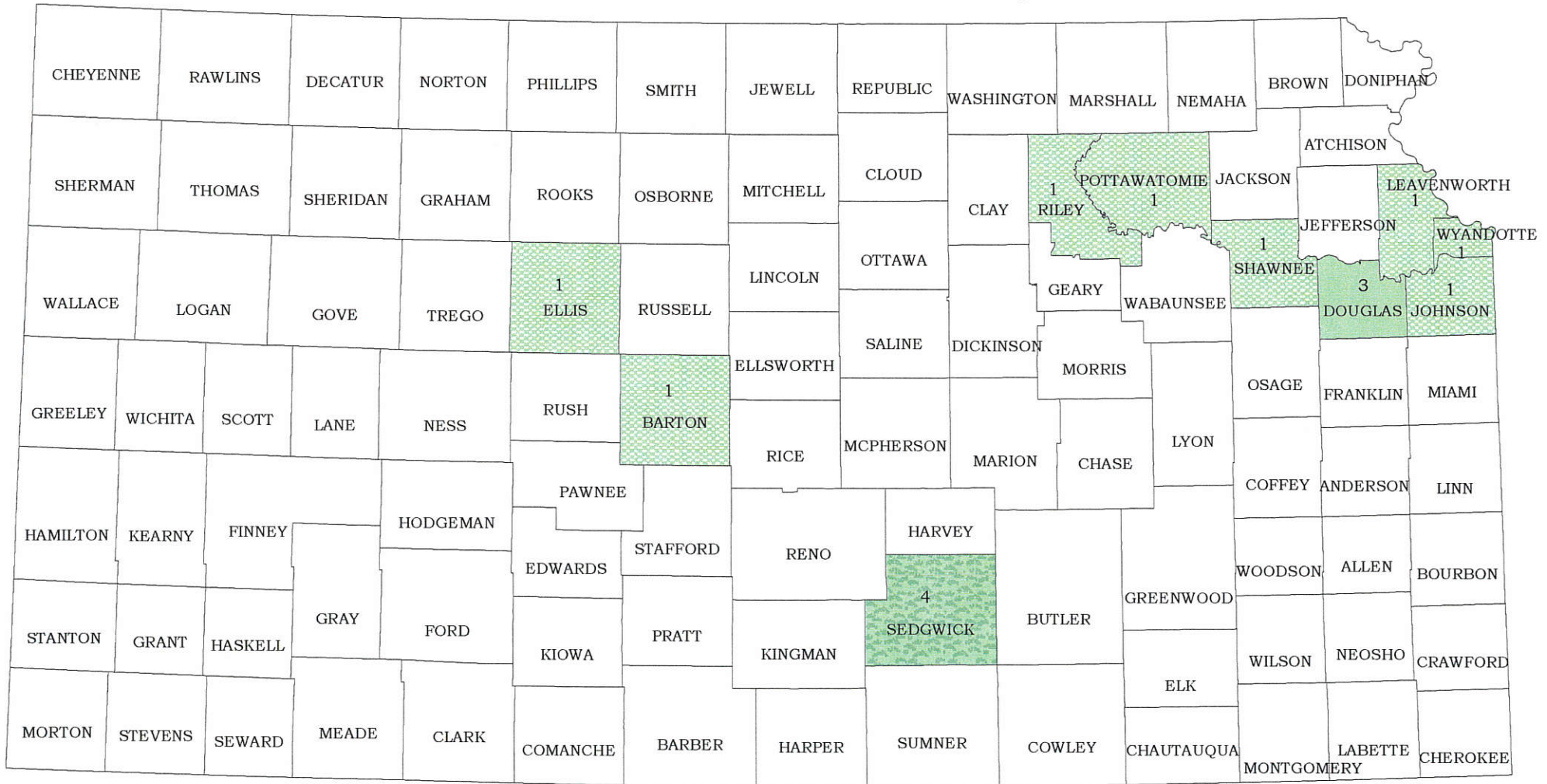
Total: 67 Active Distributor Licenses

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 Farm Winery and Outlet Licenses



Active Kansas Microbrewery Licenses



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