

MINUTES OF THE HOUSE APPROPRIATIONS COMMITTEE

The meeting was called to order by Chairman Kevin Yoder at 9:09 a.m. on January 19, 2010, in Room 346-S of the Capitol.

All members were present except:

Representative Owen Donohoe- excused
Representative Joe McLeland- excused

Committee staff present:

Jim Wilson, Office of the Revisor of Statutes
Nobuko Folmsbee, Office of the Revisor of Statutes
Alan Conroy, Kansas Legislative Research Department
Heather O'Hara, Kansas Legislative Research Department
J.G. Scott, Kansas Legislative Research Department
Jonathan Tang, Kansas Legislative Research Department
Stephen Huggins, Chief of Staff, Appropriations Committee
Kathy Holscher, Committee Assistant, Appropriations Committee

Others attending:

See attached list.

- Attachment 1 Settlement of Tax Appeals
- Attachment 2 Accounts Receivable Analysis
- Attachment 3 Compliance Enforcement - Taxation
- Attachment 4 Kansas National Guard Armory Closure Fact Sheet and State Disaster Funding
- Attachment 5 Kansas Lottery Testimony
- Attachment 6 Unemployment Trust Fund

Representative Feuerborn made a motion to introduce legislation that eliminates all state funding for the Capitol restoration mainly dealing with the visitor's center, which would exempt the sales tax from the capitol restoration project. The motion was seconded by Representative Kelley. Motion carried.

Joan Wagon, Secretary, Department of Revenue, presented an overview of the Settlement of Tax Appeals, (Attachment 1), Accounts Receivable Analysis, (Attachment 2), and Compliance Enforcement-Taxation Plan (Attachment 3). She stated that settlements in the amount of \$40,039,898 have been collected and deposited as of December 31, 2009. Plan agreements on other assessments total \$141,434, and other settlements will be determined by court action. Calculations based on net realized value are projected to collect \$111.7 million. She stated that the collection program is producing good results, \$7 million above last year's efforts.

Secretary Wagon responded to questions from committee members regarding settlement authority granted to the Secretary by the Legislature. She stated that the net realizable amount has decreased as debt collections have accelerated. Revenue projections were initially between \$16 - 17 million. However, by December \$25 million had been collected. Secretary Wagon reviewed the drug tax rate and will provide a copy of the statute for committee members, as requested. She also reviewed the collection process for sales, excise and income tax, and licensing issues for delinquent taxes. There will be no more money collected from the accelerated program for at least two years due to large cases in litigation, Secretary Wagon stated. Appreciation of the collection efforts by the Department of Revenue was expressed.

Tod Bunting, Major General, Adjutant General, provided testimony on the Kansas National Guard Armory Closure Fact Sheet and State Disaster Funding, (Attachment 4). He stated that 18 of 56 National Guard Armories are scheduled for closure in FY 2010. With fewer armories located across the state, the state will be better positioned to sustain the remaining 38 facilities and continue to provide services to those communities. The long-term sustain ability, operating costs, what was best for Kansas, and the decision to reduce armories as opposed to eliminating positions of valued state employees led to the decision to close armories, he added.

Major General Bunting responded to questions from committee members. He stated that demographics,

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presence in homeland security regions and the condition of the armory all were factors in determining closures. A one-time bond was received for improvements to armories, but additional funding for future improvements would be needed. The budget reductions will result in an approximate savings of \$1 million.

The armory closures do not impact the Kansas National Guard's ability to adequately address emergency needs within the state, Major General Bunting added. Discussion followed concerning the impact of closures in rural communities, noting that an armory that is closed returns to the city and the city determines how the facility is used. The cost to maintain the remaining 38 armories would be approximately \$1.2 million over what has presently been allocated. The Kansas National Guard is partnering with other public safety and community partners to maximize shared space and increase long-term sustainability. Major General Bunting will provide committee members with a map identifying closure locations, the criteria used to determine closures and the budget for each armory, as requested. He reviewed State Disaster Funding and stated that initial estimates are between \$5 and \$6 million, which do not include the federally declared disaster in December, 2009. An additional \$25 million may be needed for recent disasters and estimates should be completed by the end of January for FY 2010 and FY 2011 expenditures.

Ed Van Petten, Executive Director, Kansas Lottery, presented testimony on the Kansas Lottery, (Attachment 5). He stated that sales in FY 2009 totaled \$230.5 million, and to date the lottery is 3.8% above last year's sales. Mr. Van Petten stated that the MegaMillions games will be available on January 31, 2010, and there may be a possibility of proposing legislation that would allow the operation of instant ticket vending machines, which could generate 20% increase in sales. He stated that the Omnibus bill allowed for minimum monthly transfers of \$4.5 million and a minimum annual total of \$59 million, which allows for more flexibility in operations. A Retailer Honesty Assurance Program was initiated, to ensure players were treated fairly. Last year \$13.5 million was paid to retailers. Mr. Van Petten discussed partnerships, second chance drawings, Veteran's benefit games and new games for FY 2010.

Mr. Van Petten responded to questions from committee members regarding veterans games, security, expansion of gaming and revenue. It was noted that 40% of the proceeds from veterans games goes towards scholarships, 30% to veterans commission and 30% to the museum, and after FY 2010, 50% will go towards the scholarship fund and 50% to the Veterans Commission. He discussed increased security, monitoring sales to identify addictions and the deduction of 2% to address all addictions. There would be no benefit to implementing a sales tax on Powerball ticket purchases, Mr. Van Petten stated.

Keith Kocher, Director of Gaming Facilities, Kansas Lottery, discussed expanded gaming. The Southeast zone has been extended to April 16th; South Central had one entry and contract negotiations are on-going at this time; Northeast zone has approved the Kansas Entertainment contract, pending approval of the Kansas Racing and Gaming Commission with the hope to begin construction in May. He stated that the Boot Hill Casino & Resort averages \$100,000 per day in revenues and Phase II should be completed by February 2011. There are no contracts pending for the racetrack, he noted

Mr. Kocher responded to questions from committee members. He stated that the parties involved were unable to reach a final contract with the Kansas City racetrack, infrastructure for Dodge City costs will be made available to committee members as requested.

Jim Garner, Secretary, Department of Labor, presented an overview on the Unemployment Insurance Trust Fund, (Attachment 6). He stated that the Trust Fund balance as of January 10, 2010 is \$65.2 million. To date, 26 states have borrowed funds for the federal government to cover claims. Kansas will be among the list of borrowers in February. The Employment Security Advisory Council has been meeting to develop recommendations for the Legislature to rebuild the trust fund and pay off federal loans that may be needed.

Secretary Garner responded to questions from committee members regarding cost and benefit analysis. He responded that the bill passed last session resulted in \$69 million of infusion into the trust fund, with the time frame for extended training benefits going in to effect January 1, 2010. Presently four extended benefit programs are in place, and staffing to address the workload which has tripled over last year.

Unique claim questions may be taking longer than general inquiry calls, he noted. The cross matching of quarterly claim reports to identify duplication and eligibility requirements for benefits was reviewed. Secretary Garner noted that individuals who meet all requirements for the four extensions would be eligible

CONTINUATION SHEET

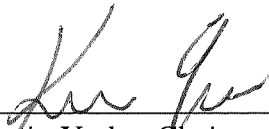
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to receive 86 weeks of benefits. As requested, Secretary Garner will provide financial projections on exhausted benefits. He stated that members of the Employment Security Advisory Council are meeting to review the impact of these benefits for recommendations and are mindful of the business conditions that may exist with increased taxes that are based on experience ratings.

Chairman Yoder invited Mr. Garner to return to the committee meeting in order to continue responding to committee members questions.

The next meeting is scheduled for January 20, 2010.

The meeting was adjourned at 11:01 a.m.



Kevin Yoder, Chairman

APPROPRIATIONS COMMITTEE GUEST LIST

DATE: *January 19, 2010*

NAME	REPRESENTING
<i>Stacey Westington</i>	<i>KDA</i>
<i>Jim Bruning</i>	<i>Op Chamber</i>
<i>Victoria Helsel</i>	<i>Budget</i>
<i>Kim Fowler</i>	<i>Judicial Branch</i>
<i>Linda Kund</i>	<i>KASA</i>
<i>Jim Rose</i>	<i>KCSL</i>
<i>Mark Boranyak</i>	<i>Capitol Strategies</i>
<i>Rob Mealy</i>	<i>Kennedy Assoc.</i>
<i>Jennifer Crout</i>	<i>PAZ Kansas, Inc.</i>
<i>Cory Bennett</i>	<i>G-KC Chamber</i>
<i>Nora Lockta</i>	<i>" "</i>
<i>Mark Doseffi</i>	<i>KNFA</i>
<i>Tracy Russell</i>	<i>SOK</i>
<i>Matt Coff</i>	<i>GBA</i>
<i>Kevin Barone</i>	<i>CLG</i>
<i>James Bartle</i>	<i>Dept. of Revenue</i>
<i>Jim Graine</i>	<i>KDOL</i>
<i>Megan Portenburg</i>	<i>KDOL</i>
<i>Ken Beebe</i>	<i>KASA</i>

APPROPRIATIONS COMMITTEE GUEST LIST

DATE: *January 19, 2010*

NAME	REPRESENTING
<i>Judy Macy</i>	<i>KIDOL LLC</i>
<i>Angela Berland</i>	<i>KDOL</i>
<i>Bob Liera</i>	<i>KDOL</i>
<i>Dr Inayat Noor Mohamed</i>	<i>KDOL</i>
<i>JOE VINDINO</i>	<i>KDOL</i>
<i>Leslie Kaufman</i>	<i>K's Co-op Council</i>

MEMORANDUM

TO: Joan Wagnon
Secretary of Revenue

FROM: James Bartle
General Counsel

DATE: January 11, 2010

RE: Settlement of Tax Appeals

The following is a summary of the tax assessments that have been settled during the first two quarters of this fiscal year.

Out of the original group of cases targeted for settlement, the total of all amounts collected to date is \$32,277,923.

In addition, other assessments that were either in the appeals process or at the problem resolution stage in Audit Services were settled for a total of \$7,761,975.

Together, the total is \$40,039,898, and we can confirm that this entire amount has been collected and forwarded for deposit.

In addition, payment plan agreements have been entered into on several other assessments together totaling \$151,434, a portion of which has been received in the form of installment payments. However, no portion of this \$151K is included in the \$40.0 million figure mentioned above.

Thank you for supporting the efforts of Legal Services, Audit Services and Administrative Appeals in this important initiative.

Appropriations Committee
 Date 1-19-10
 Attachment 2

Kansas Department of Revenue - Accounts Receivable Analysis / Breakdown

Report as of 12.31.2009

NRV = Net Realizable Value (formula applied with 1,400 attributes researched likelihood of collection based on information and age)

Major Tax Type AR's	Gross	% of Gross Bal	
Total ACM AR balance:	\$617,891,696.89		
KDOR Set-Up Return Assessments:	\$415,849,209.12	67%	**Assessed debts are Discovery/Non-Filed Set-Up returns
Filed Returns Debt	\$202,042,487.77	33%	Filed debts are actual returns filed with a balance due

** - inflated tax liabilities without documentation

Organization of Major Debt Type		% of Gross Bal	These debt balances are basically frozen due to the reasons noted left - some statute restrictive - some missing information
Inventories			
BK Debt Frozen	\$ 18,229,595.39	3%	Federal Law prohibits collection activity
Suspended - Appeals/Audit/Fraud	\$ 4,707,313.46	1%	Cannot pursue collection activities
Deemed Uncollectable	\$ 41,990,777.67	7%	Statute criteria driven
Pending Skiptracing - AS	\$ 21,647,936.38	4%	Missing phone/good address - collection stopped to research

3rd Party Balances are a subset of Gross Balances farmed out under contract

With 3rd Party Contracted Collections	\$ 218,786,249.99	35%	Is a mix of both filed debt and assessed debt trying to collect
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Actual Collection Inventory Debt Value \$312,529,824.00 51% of Gross AR

NET REALIZABLE VALUE \$ 103,134,841.92 33% **NRV of Collectable Debt Value**

Other Tax Type Receivables

	Gross Balance	NRV Balance	% of Gross	
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Cigarette	\$ 3,454,133.00	\$ 1,458,458.00	42%	
Drug	\$ 48,514,721.00	\$ 317,965.00	1%	100% Jeopardy Assessments - HIGHLY inflated
Dry Cleaning	\$ 13,460.00	\$ 4,294.00	32%	
Industrial Water	\$ 137,883.00	\$ 116,786.00	85%	
Inheritance	\$ 115,660.00	\$ 11,868.00	10%	
Interstate Motor Fuel	\$ 2,086,751.00	\$ 1,753,079.00	84%	
Motor Carrier	\$ 47,494,528.00	\$ 2,330,419.00	5%	
Motor Fuel Distributors	\$ 8,927,259.00	\$ 1,728,302.00	19%	
Public Water	\$ 232,530.00	\$ 207,385.00	89%	
Rental Vehicle	\$ 6,679.00	\$ 3,187.00	48%	
Severance Oil and Gas	\$ 618,885.00	\$ 605,839.00	98%	
Stock Water	\$ 43,704.00	\$ 38,708.00	89%	
Waste Tire	\$ 27,380.00	\$ 8,762.00	32%	
Total	\$ 111,673,573.00	\$ 8,585,052.00	8%	8% likely realizable value in these tax debt AR's

	GROSS	NRV	
TOTAL GROSS AR ON BOOKS	\$ 729,565,269.89	\$ 111,719,893.92	15% Net realizable value - projected achievable
		Realizable Value	

Compliance Enforcement - Taxation

10 Fiscal Year History

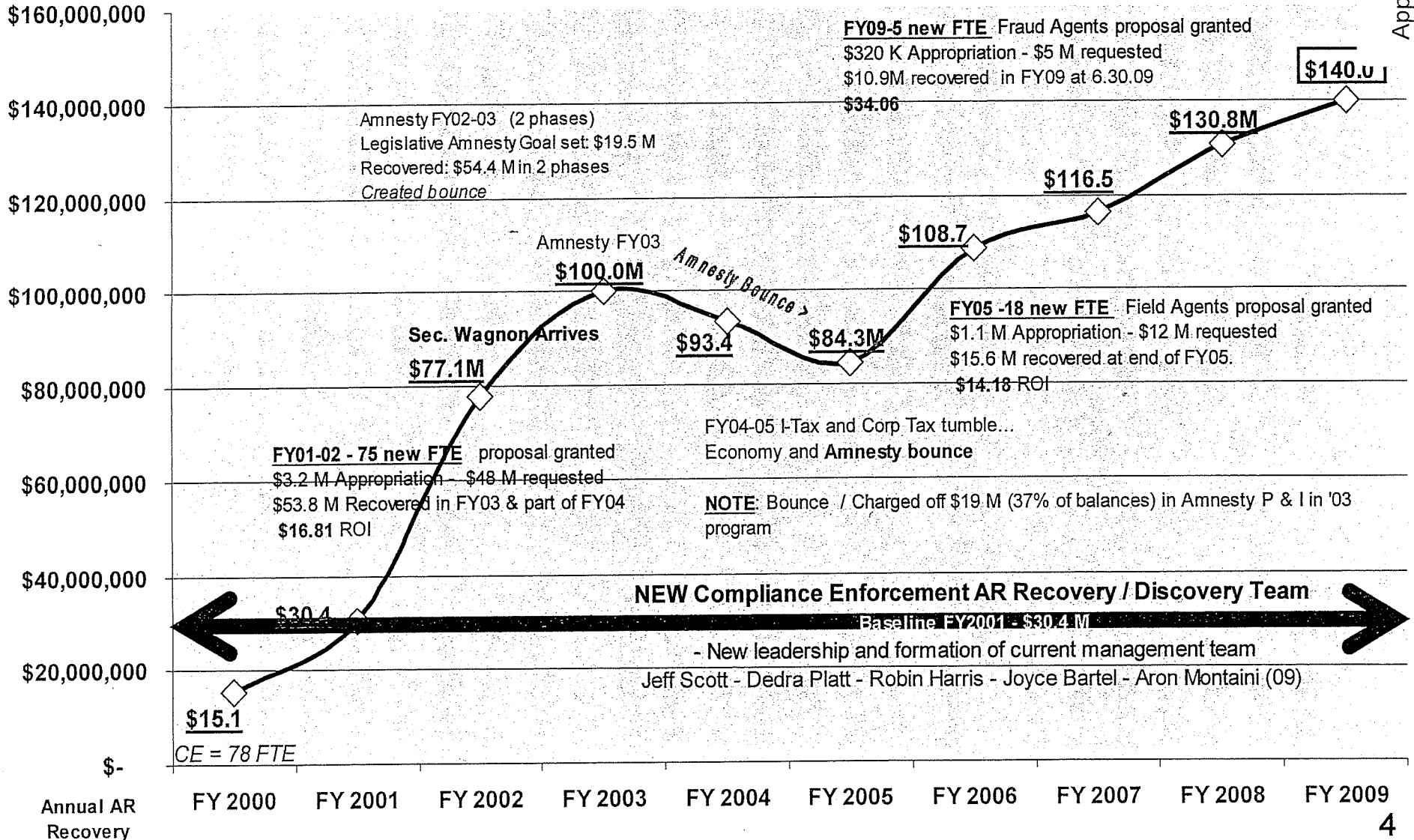
AR Recovery & Discovery FY2000 through FY2009

10 YR Notable - FY2000 vs FY2009 :

CE = 214 FTE equivalent

+174% FTE increase from FY00

+822% \$ increase since FY00



Kansas National Guard Armory Closure Factsheet – January 2010

1. **Background.** Due to recent and projected budgetary cuts, continued force structure reductions and long-term sustainment plans, the Kansas National Guard announced the closure of 18 of its 56 National Guard Armories. The closures are scheduled for early 2010 and will not result in any personnel layoffs. While we would like to be able to keep all the armories open, the realities of force structure reductions and budget cuts made this a necessary decision. It is important to note, we have never had a facility in every community, but we've always responded anywhere we were needed including Greensburg, Chapman and many others locations.

2. **Budget.** Closing the 18 armories addresses the \$156,662 state agency cut for Fiscal Year 2010 and \$264,217 for Fiscal Year 2011. For the past ten years, the maintenance and repair of armories has been reduced by more than 70% from \$837,000 in 2000 to \$229,000 in 2011. This does not allow us to properly maintain adequate facilities for our personnel. Also, during this period utility costs have increased almost \$500,000. Meanwhile, federal support is also a concern and has only been at 65% of the necessary funds for our armories. And, with funding below the required levels for several years now, we have not been able to bring all of the facilities up to code. We received a one-time bond to improve armories, but will need to have a new round of funding for future needs.

3. **Force Structure and Demographic Changes.** Since the year 2000, the Kansas National Guard has lost one Field Artillery Brigade Headquarters and One Field Artillery Battalion. Additionally, the 1st Battalion 137th Infantry and 1st Battalion 635th Armor were combined into one battalion. The total loss for Kansas was 1,536 authorized personnel. Closing 18 facilities is keeping in line with these force structure reductions. Our armories were built 40 to 50 years ago based on demographics and key transportation routes of the time and were designed to support Company/Battery size units – 100 to 150 or more troops, but many of the facilities to be closed have 50 or less soldiers training at them.

4. **Reductions.** Although the focus has been on armories, additional cost-saving reductions have been applied throughout the agency. These include the Air National Guard significantly reducing their operations in excess of \$80,000 which equates to over \$320,000 with Federal matching funds. As the Adjutant General's Department has always been a lean organization, the final choice for dealing with the cuts ultimately had to be infrastructure or essential personnel. In order to continue providing disaster-related emergency services, most cuts were taken in infrastructure.

5. **New kind of armory.** To ensure future sustainability, the Kansas National Guard is joining with other public safety and community partners in future armory projects. We have done this in Pittsburg, partnering with Pittsburg State University, and will build similar facilities in Wichita and Kansas City, maximizing shared use space with other agencies and partners to increase long-term sustainability.

6. **Comparison.** A comprehensive strategic statewide analysis was conducted examining a variety of options surrounding the closure of armories and consolidation of operations. The analysis included: location and proximity to other armories, historical and projected demographic shifts in population, feasibility of consolidation of operations, condition of current facilities, the potential to expand to accommodate new mission requirements, required facility upgrades, maintenance costs, and ensuring a National Guard presence in each of the seven homeland security regions to support domestic response operations. Comparisons to other states:

<u>State</u>	<u>Population</u>	<u>Force Authorizations</u>	<u>No. Armories</u>	<u>Ratio</u>
KS	2.8M	5,550	56 (without closings)	98 soldiers per station
NE	1.8M	3,699	26	142 soldiers per station
KS	2.8M	5,550	38 (after closings)	146 soldiers per station
IA	3.0M	7,340	47	156 soldiers per station
OK	3.6M	7,424	51	146 soldiers per station
CO	4.9M	3,771	24	157 soldiers per station
AZ	6.5M	5,400	30	180 soldiers per station

7. **The Future.** With fewer armories strategically located around the state, we will be far better positioned to sustain the remaining 38 facilities and provide Kansas communities with the type of capabilities they deserve.

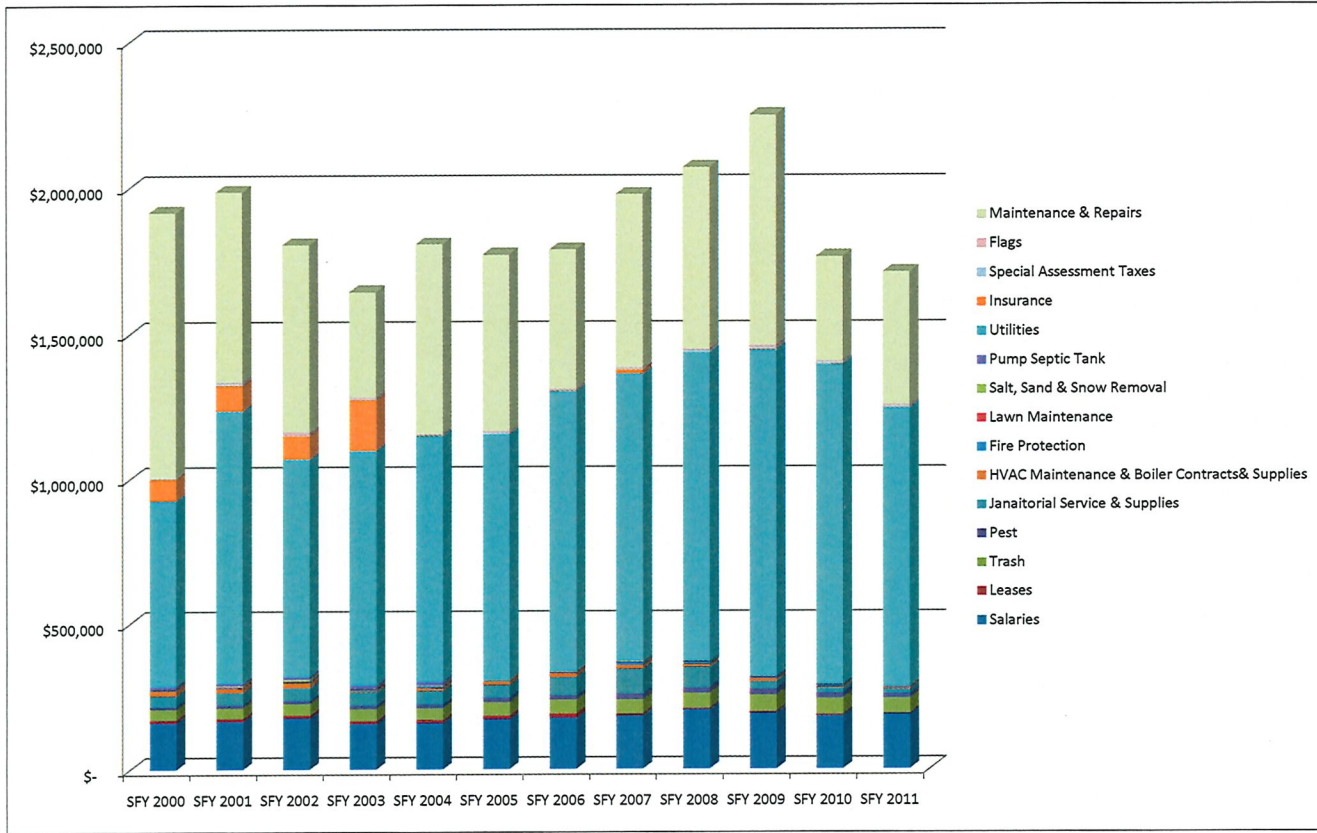
Appropriations Committee
Date 1-19-10
Attachment 4-1

Armory Expenditures by Category

4-2

Armories & SDB

Category	Actual SFY 2000	Actual SFY 2001	Actual SFY 2002	Actual SFY 2003	Actual SFY 2004	Actual SFY 2005	Actual SFY 2006	Actual SFY 2007	Actual SFY 2008	Actual SFY 2009	Budgeted SFY 2010	Budgeted SFY 2011
Salaries	\$ 162,012	\$ 165,784	\$ 177,177	\$ 156,746	\$ 159,787	\$ 173,616	\$ 176,507	\$ 183,886	\$ 205,000	\$ 193,293	\$ 183,596	\$ 188,028
Fixed Costs:												
Leases	\$ 9,926	\$ 9,926	\$ 9,926	\$ 9,926	\$ 9,924	\$ 11,700	\$ 15,902	\$ 6,802	\$ 4,100	\$ 4,100	\$ 4,100	\$ 4,100
Trash	\$ 36,585	\$ 37,391	\$ 39,334	\$ 41,527	\$ 42,428	\$ 46,671	\$ 45,656	\$ 48,259	\$ 52,433	\$ 57,566	\$ 55,934	\$ 51,802
Pest	\$ 9,711	\$ 11,462	\$ 11,262	\$ 14,093	\$ 13,124	\$ 15,045	\$ 16,716	\$ 20,844	\$ 19,280	\$ 20,387	\$ 19,048	\$ 15,814
Janitorial Service & Supplies	\$ 36,639	\$ 40,729	\$ 43,935	\$ 43,084	\$ 44,559	\$ 42,666	\$ 60,328	\$ 83,602	\$ 68,461	\$ 24,994	\$ 13,200	\$ 12,500
HVAC Maintenance & Boiler Contracts& Supplies	\$ 17,628	\$ 15,134	\$ 17,037	\$ 6,430	\$ 10,578	\$ 11,746	\$ 11,041	\$ 12,401	\$ 10,066	\$ 7,897	\$ 6,040	\$ 4,500
Fire Protection	\$ 4,518	\$ 3,945	\$ 5,415	\$ 4,585	\$ 4,658	\$ 2,945	\$ 3,611	\$ 9,739	\$ 7,496	\$ 6,766	\$ 6,085	\$ 4,435
Lawn Maintenance	\$ 2,080	\$ 1,823	\$ 959	\$ 1,496	\$ 972	\$ 445	\$ 2,913	\$ 1,611	\$ 1,457	\$ 1,672	\$ 1,600	\$ 1,600
Salt, Sand & Snow Removal	\$ 868	\$ 2,551	\$ 5,050	\$ 1,538	\$ 2,232	\$ 1,440	\$ 1,330	\$ 1,950	\$ -	\$ -	\$ -	\$ -
Pump Septic Tank	\$ 7,635	\$ 7,840	\$ 10,175	\$ 10,340	\$ 13,770	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Utilities	\$ 638,552	\$ 939,091	\$ 749,377	\$ 808,104	\$ 847,260	\$ 847,935	\$ 967,055	\$ 992,107	\$ 1,066,880	\$ 1,127,461	\$ 1,104,100	\$ 958,750
Insurance	\$ 74,953	\$ 89,173	\$ 80,811	\$ 175,485	\$ 1,372	\$ 810	\$ 1,566	\$ 13,646	\$ -	\$ 1,190	\$ 1,125	\$ 1,125
Special Assessment Taxes	\$ 4,535	\$ 5,888	\$ 3,873	\$ 3,071	\$ 3,739	\$ 4,150	\$ 4,446	\$ 4,695	\$ 5,113	\$ 5,785	\$ 5,550	\$ 5,350
Flags	\$ -	\$ 5,455	\$ 8,486	\$ 4,515	\$ 2,324	\$ 4,426	\$ 3,468	\$ 2,962	\$ 5,800	\$ 6,900	\$ 5,000	\$ 4,000
Maintenance & Repairs - State Funds	\$ 836,899	\$ 648,246	\$ 513,594	\$ 342,515	\$ 429,760	\$ 494,478	\$ 348,826	\$ 422,099	\$ 327,212	\$ 359,495	\$ 178,986	\$ 229,024
Maintenance & Repairs - Federal Funds	\$ 73,777	\$ 2,500	\$ 129,430	\$ 20,422	\$ 220,794	\$ 113,582	\$ 128,832	\$ 172,485	\$ 294,719	\$ 431,025	\$ 178,986	\$ 229,024
TOTAL	\$ 1,916,319	\$ 1,986,938	\$ 1,805,840	\$ 1,643,877	\$ 1,807,281	\$ 1,771,655	\$ 1,788,197	\$ 1,977,088	\$ 2,068,017	\$ 2,248,531	\$ 1,763,350	\$ 1,710,052



Adjutant General's Department Budget Requests for Maintenance & Repair Funds

Fiscal Year	Requested				Received				Armory Bonds
	Armories	GPRTC	Forbes	McConnell	Armories	GPRTC	Forbes	McConnell	
FY 2001*	\$ 300,000				\$ 300,000				\$ 2,000,000
FY 2002									\$ 2,000,000
FY 2003	\$ 1,673,432								\$ 6,000,000
FY 2004									\$ 6,000,000
FY 2005			\$ 26,660				\$ 5,000		\$ 6,000,000
FY 2006	\$ 115,138		\$ 91,174	\$ 24,556	\$ 90,000		\$ 76,667	\$ 33,333	
FY 2006 Supplemental	\$ 282,000								
FY 2007	\$ 376,000		\$ 40,541	\$ 6,750	\$ 301,000		\$ 95,067	\$ 6,750	\$ 3,000,000
FY 2008									\$ 3,000,000
FY 2009	\$ 300,000	\$ 79,497							
FY 2010	\$ 320,000	\$ 237,257							
FY 2011	\$ 300,000			\$ 50,000					

* Additional M&R funds had to be used to pay the extra \$250,000 in additional utility costs for a terribly hard winter

Armory Funding Reports to the Legislature

2002 Legislative Session

Rising utility costs in our facilities across the state is a major concern of this agency. Utility costs are a major portion of our agency's military division's budget (25% in FY 2000 and an estimated 34% in FY 2001 and FY 2002). Therefore, we request the issue of utility costs be flagged for Omnibus consideration in order to cover anticipated higher utility costs in FY 2002.

Repair dollars for our 58 statewide armories was cut by \$155,000 for FY 2001 and this cut was sustained in FY 2002. When our agency agreed to pay the debt service on the Armory Bonds for the First Two years, it was assumed the \$155,000 was a one-year cut and would be added back into the budget in subsequent years. With this sustained cut, our agency cannot meet its promise to pay the debt service and still meet the repair needs of the armories.

2003 Legislative Session

◆ Armory Maintenance Staffing:

- Maintaining our state facilities like other state agencies would require 49 FTE
- Our budget only allows us to fund 6 of 7 authorized FTE (either is inadequate)
- After research in other states, we found a team approach was the most efficient way to maintain the Armories. Therefore, last year we requested 38 FTE to staff 5 teams and 1 control Group in order to maintain the renovated facilities so they would not revert to the same dilapidated condition that required the "Aging Armory" bill.

Recognizing the state's fiscal situation, we are not requesting these 38 FTEs this year.

2004 Legislative Session

◆ Armory Maintenance & Repair Funding Cuts

- Fixed cost must be funded first
 - Fixed Costs include leases, taxes, fire protection, utilities, trash, etc.
 - Fixed Costs reduced by elimination of armory insurance requirement
 - Funds not spent on Fixed Costs are available for Maintenance & Repairs
- Maintenance & Repair funds are drastically affected by ongoing budget cuts
 - Available funds down 84% from FY 2000 to FY 2005 recommendations
 - Per square foot reduction from \$0.71 in FY 2000 to \$0.11 in FY 2005
 - Industry average is approximately \$4.00 per square foot
 - Less than \$2,000 a year available per armory
 - Attached graphs illustrate downward spiral
- The Legislature in their 2000 Session, recognizing the Armories had been neglected for decades (like crumbling classrooms) approved the "Aging Armories" Renovation Bond Bill to include annual bond issuances of \$2M, \$2M, \$6M, \$6M, \$6M from 2000 to 2005.
 - We focused bond funds to compensate for maintenance/repair cuts in recent years

h-h

- \$22M bond calculation based on FY 2000 Maintenance & Repair funding level
- Funding change will help a little
 - Army Logistic Sites transition to 100% federal funding
 - \$70,000 SGF will be reprogrammed to the Armories Program
 - After reprogramming the funds:
 - Available funds down 75% from FY 2000 to FY 2005 recommendations
 - Per square foot reduction from \$0.71 in FY 2000 to \$0.18 in FY 2005
 - Just over \$3,000 a year available per armory

◆ **Armory Maintenance Staffing:**

- Maintaining our state facilities like other state agencies would require 49 FTE
- Our budget only allows us to fund 6 of 7 authorized FTE (either is inadequate)
- After research in other states, we found a team approach was the most efficient way to maintain the Armories. Therefore, in FY 03 year we requested 38 FTE to staff 5 teams and 1 control Group in order to maintain the renovated facilities so they would not revert to the same dilapidated condition that required the "Aging Armory" bill.

Recognizing the state's fiscal situation, we will not request these 38 FTEs again this year.

2005 Legislative Session

◆ **Armory Maintenance & Repair Funding Cuts**

- Fixed cost must be funded first
 - Fixed Costs include leases, taxes, fire protection, utilities, trash, etc.
 - Fixed Costs reduced by elimination of armory insurance requirement
 - Funds not spent on Fixed Costs are available for Maintenance & Repairs
- Maintenance & Repair funds have been drastically affected by ongoing budget cuts
 - Available funds down 61.7% from FY 2000 to FY 2006
 - Governor's recommendation to add \$100,000 helps reverse trend; more help needed
 - Per square foot reduction from \$1.55 in FY 2000 to \$1.32 in FY 2006
 - Industry average is approximately \$4.00 per square foot
 - Attached graphs illustrate downward spiral with mild recovery for FY 2006
 - We ask for your support of the Governor's recommended additional funding
- Current Year Armory funding depleting rapidly
 - After fixed costs, \$184K available for Maintenance/Repair
 - Set aside \$63K more than last FY to accommodate higher natural gas costs
 - Maintenance/Repair needs have depleted the \$184K and have also used \$20K of the \$63K set aside for higher natural gas costs
- The Legislature in their 2000 Session, recognizing the Armories had been neglected for decades approved the "Aging Armories" Renovation Bonds to include annual bond issuances of \$2M, \$2M, \$6M, \$6M, \$6M from 2000 to 2005.
 - Forced to focused bond funds to compensate for maintenance/repair cuts in recent years
 - \$22M bond calculation based on FY 2000 Maintenance & Repair funding level
 - Due to unpredictable cost increases, will need additional bonds to complete the Armories
 - Primary Reasons: Higher construction costs; Renovation of historical facilities; Code compliance issues

◆ **Armory Maintenance Staffing ongoing issue for 4 years:**

- In order to maintain the renovated facilities so they will not revert to the same dilapidated condition that required the "Aging Armory" bill, additional staffing will be needed in the future
- Research has shown the most efficient way to maintain Armories is a team approach

Recognizing the state's fiscal situation, we will not request additional FTEs again this year.

2006 Legislative Session

◆ **Armory Maintenance & Repair Funding**

- We want to thank you for the support you provided last year in adding funds for maintenance and repair of the agency's Physical Plant facilities!
 - Properly maintained facilities is a must to sustain the strength of the Kansas National Guard
 - We ask your support to continue adequately funding maintenance and repairs
- Fixed cost must be funded first
 - Fixed Costs include leases, taxes, fire protection, utilities, trash, etc.

- Funds not spent on Fixed Costs are available for Maintenance & Repairs
- Maintenance & Repair funds have been drastically affected by ongoing budget cuts
 - Available funds down 63.9% from FY 2000 to FY 2007 due to budget shortfalls
 - Deputy amount of \$93,809 reprogrammed for maintenance & repair included in FY 2006
 - Attached graph illustrates downward spiral of funding with mild recovery for FY 2006
 - Attached graph compares agency funding to Department of Defense cost factors
 - Agency funding only a fraction of Department of Defense cost factors
 - We ask for your support of the recommendation to reprogram Deputy funding for armories
- The Legislature in the 2000 Session, recognizing the Armories had been neglected for decades approved the "Aging Armories" Renovation Bonds to include annual bond issuances of \$2M, \$2M, \$6M, \$6M, \$6M from 2000 to 2005. The Legislature in the 2005 Session approved additional bonding approval of \$3M, \$3M and \$3M from FY 2007 to FY 2009
 - Aging Armories Bond Program a major turn in the right directions to secure infrastructure
 - Bonds generally only cover renovations for code compliance and major building systems
 - Forced to focused bond funds to compensate for maintenance/repair cuts in recent years
 - Additional funds approved for armories in FY 2006 was a move in the right direction
 - Continued commitment of additional funds needed to properly maintain renovated armories
- ♦ **Armory Maintenance Staffing Ongoing Issue for 5 Years:**
 - In order to maintain the renovated facilities so they will not revert to the same dilapidated condition that required the "Aging Armory" bill, additional staffing will be needed in the future
 - Research has shown the most efficient way to maintain Armories is a team approach

Recognizing the state's fiscal situation, we will not request additional FTEs again this year.

2007 Legislative Session

- ♦ **Armory Maintenance & Repair Funding Update**
 - We want to thank you for the support you provided in adding funds for maintenance and repair for the Armories!
 - Fixed Costs include leases, taxes, fire protection, utilities, trash, etc. must be funded first
 - Utilities are a large percent of the fixed costs and always unpredictable
 - Funds not spent on Fixed Costs are available for Maintenance & Repairs
 - Maintenance & Repair funds are at a more acceptable level but still inadequate
 - Maintenance & Repair funding remains less than FY 2000
 - FY 2000 funding level resulted in the armories declining into disrepair
 - Properly maintained facilities is a must to sustain the strength of the Kansas National Guard
 - Adjutant General has shown his commitment to adequately funding the armories by sacrificing the funds provided for the Deputy Adjutant General's position (\$93,809) for armory maintenance & repair
 - These additional maintenance and repair funds have been crucial through FY 2007
 - Maintenance & Repair funds drop again in FY 2008 without the Deputy position's funding
 - We must continue to strive to reach the FY 2000 level of funding for maintenance and repairs for the armories to insure the success of the Kansas National Guard
 - Attached graph illustrates the funding levels and changes throughout the years for maintenance, repair and fixed costs, spreadsheet provides actual numbers
 - We ask your continued support of our efforts to acquire adequate funding for the armories in order to sustain a strong and vital Kansas National Guard
- ♦ **Support Governor's recommendation for the replacement of 1 vehicle**
 - Needed to replace aging and failing vehicle
 - Vehicle needed to sustain the agency's mission to maintain KSNG Armories
- ♦ **Armory Maintenance Staffing Ongoing Issue for 6 Years:**
 - In order to maintain the renovated facilities so they will not revert to the same dilapidated condition that required the "Aging Armory" bill, additional staffing will be needed in the future
 - Research has shown the most efficient way to maintain Armories is a team approach

Recognizing the state's fiscal situation, we will not request additional FTEs again this year.

2008 Legislative Session

- ♦ **Armory Maintenance & Repair Funding Update**
 - We want to thank you for your past support for maintenance and repair funds for the armories!
 - Fixed Costs such as leases, fire protection, utilities, trash, etc. must be funded first

- 7-17
- Funds not spent on Fixed Costs are available for Maintenance & Repairs
 - Maintenance & Repair funds being consumed by ever increasing Fixed Costs
 - Provided are examples of the type of work the current funding will not support:
 - Safety related deficiencies i.e. trip hazards, lighting, interior equipment
 - Replacement of outdated high maintenance equipment i.e. mowers, technician diagnostic and maintenance equipment
 - Minor facility modifications to meet Army Physical Security of arms, ammunition and equipment i.e. lighting, gates and fences
 - Continued modifications and efforts to reduce energy consumption
 - Preventive maintenance for exterior brick facings i.e. tuck pointing and sealing
 - Installation of electrical transfer switching for generators at facilities critical to supporting emergency operations
 - Modifications to support high tech communications

◆ **Armory Maintenance Staffing Ongoing Issue for 7 Years:**

- In order to maintain the renovated facilities so they will not revert to the same dilapidated condition that required the "Aging Armory" bill, additional staffing will be needed in the future
 - Research has shown the most efficient way to maintain Armories is a team approach
- Recognizing the state's fiscal situation, we will not request additional FTEs again this year.*

2009 Legislative Session

◆ **Sustainment Funding for the Great Plains Joint Training Center**

- Manning & sustainment costs were included in original project plan which included state funding and up to \$700,000 in federal funding
- \$40,000 SGF was provided in FY 2009 to provide the first installment of state funds for sustain of the training center's facilities and grounds
- Agency is in the process of getting the training center recognized as an Army National Guard facility which once completed will provide federal funding for a portion of the sustainment costs
- It is estimated the Crisis City portion of the training center will be operational by this summer
- Additional funding is required as the training center nears completion and activity and use of the facilities increases
- \$237,257 SGF was requested in the agency's FY 2010 budget to fund 1.5 positions, contractual services, including utilities, and commodities
- Governor recommended additional \$75,000 SGF to fund sustainment expenses
- We request your support in providing the additional funds to help sustain training center operations and make it available for many entities to receive critically needed training

On-going Issues

◆ **Armory Maintenance Staffing Ongoing Issue for 8 Years:**

- In order to maintain the renovated facilities so they will not revert to the same dilapidated condition that required the "Aging Armory" bill, additional staffing will be needed in the future
- Research has shown the most efficient way to maintain Armories is a team approach
- Recognizing the state's fiscal situation, we will not request additional FTEs again this year

◆ **Armory Maintenance & Repair Funding:**

- Baseline costs such as utilities, trash services, pest services, etc. continue to increase
- As these baseline costs continue to increase the amount of funds available for maintenance & repairs dwindle
- Insufficient funding for sustainment of facilities is an on-going problem for the agency
- Recognizing the state's fiscal situation, we will not request additional funds this session

State Disaster Funding

- Attached is a summary of anticipated expenditures for Fiscal Years 2010 and 2011
- These estimates do not include the latest disaster that was Federally Declared at the end of December – Initial estimates are between \$5,000,000 and \$6,000,000
- We are in the process of updating total estimated costs of each open disaster
- We are also working on new expenditure estimates by Fiscal Year by reviewing each Project Worksheet in order to get our estimated expenditures as close as possible
- We should have all estimates completed by the end of January
- Initial estimates indicate we will need a large amount of funds in FY 2011, possibly around \$30,000,000
- The updated State Disaster Spreadsheet will be provided to you as soon as it is finalized

FY 2009 & FY 2010 Budget - Disaster Funds Required for Federally Declared Disasters - Paid & Pending - SUMMARY

				As of:	11/18/2009	
Estimated Total State Disaster Match Required:	Total State Match Required	State Amounts Paid To-Date	Estimated State Share Payments Due		Estimated Federal Share Payments Due	Estimated Local Share Payments Due
Disaster 1600 - 2005 CK, CR, & NO Floods - Federally Declared 8-23-2005						
Estimated Total State Disaster Match Required	\$ 438,566	\$ 411,702	\$ 26,863		\$ 201,475	\$ 40,295
Disaster 1615 - 2005 AT, JA, JF, LV & SN Floods - Federally Declared 11-15-2005						
Estimated Total State Disaster Match Required	\$ 1,067,095	\$ 1,015,018	\$ 52,077		\$ 390,580	\$ 78,116
Disaster 1626 - 2006 NW Winter Storm - Federally Declared 1-26-2006						
Estimated Total State Disaster Match Required	\$ 5,033,009	\$ 5,013,145	\$ 19,864		\$ 148,981	\$ 29,796
Funds Needed to Complete Disaster 1600, 1615, & 1626	\$ 6,538,670	\$ 6,439,865	\$ 98,805		\$ 741,036	\$ 148,207
DISASTERS DECLARED 2007 AND BEYOND						
Disaster 1675 - 2006 SW Kansas Ice Storm - Federally Declared 12-2006						
Estimated Total State Disaster Match Required	\$ 34,831,479	\$ 24,321,462	\$ 10,510,017		\$ 78,825,130	\$ 15,765,026
Disaster 1699 - 2007 Tornado Greensburg / NE KS Flooding - Federally Declared 5-2007						
Estimated Total State Disaster Match Required	\$ 11,971,187	\$ 11,661,384	\$ 309,803		\$ 2,323,520	\$ 464,704
Disaster 1711 - 2007 SE Kansas Flooding - Federally Declared 7-2007						
Estimated Total State Disaster Match Required	\$ 4,183,090	\$ 2,814,445	\$ 1,368,645		\$ 10,264,836	\$ 2,052,967
Disaster 1741 - December 2007 Ice Storm - Federal Declared 2/2008						
Estimated Total State Disaster Match Required	\$ 35,711,288	\$ 11,536,813	\$ 24,174,475		\$ 181,308,562	\$ 36,261,712
Disaster 1776 - June 2008 Storms - Federal Declared 7/2008						
Estimated Total State Disaster Match Required	\$ 6,627,790	\$ 2,515,586	\$ 4,112,204		\$ 30,841,527	\$ 6,168,305
Disaster 1808 - September 2008 Flooding - Federal Declared 10/2008						
Estimated Total State Disaster Match Required	\$ 501,297	\$ 314,033	\$ 187,263		\$ 1,404,476	\$ 280,895
Disaster 1848 - March 2009 Winter Storm - Federal Declared 6/2009						
Estimated Total State Disaster Match Required	\$ 1,995,063	\$ 316,704	\$ 1,678,359		\$ 12,587,693	\$ 2,517,539
Disaster 1849 - Spring 2009 Flooding - Federal Declared 6/2009						
Estimated Total State Disaster Match Required	\$ 1,405,054	\$ 948,455	\$ 456,599		\$ 3,424,492	\$ 684,898
Disaster 1860 - Severe Storms and Flooding 2009 - Federal Declared 10/2009						
Estimated Total State Disaster Match Required	\$ 2,061,839	\$ 23,092	\$ 2,038,747		\$ 15,290,602	\$ 3,058,120

City of Greensburg Operating Funds							
Estimated Total State Disaster Match Required	\$ 2,067,880	\$ 2,067,880	\$ -		\$ -	\$ -	
Emergency Operations Center Taskings							
Estimated Total State Disaster Match Required	\$ 2,500	\$ 2,500	\$ -		\$ -	\$ -	
Direct Federal Assistance Payments Due FEMA #1699, #1711, & #1741							
Estimated Total State Disaster Match Required	\$ 98,151	\$ 84,103	\$ 14,048		\$ 42,144	\$ -	
Totals	\$ 107,995,289	\$ 63,046,324	\$ 44,948,965		\$ 337,054,019	\$ 67,402,375	

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CASH ON HAND					State Funds Shortfall	Federal Funds Shortfall	Local Share Remaining
Disaster Match Fund Balances							
und 1000-0200	\$ 11,600,872						
Fund 2357	\$ 26,590						
Fund 2441	\$ -						
Fund 2445	\$ -						
Total State Disaster Match Funds Balance	\$ 11,627,462				\$ 33,321,503	\$ 252,796,469	\$ 50,236,729
Anticipated Timeline of State Disaster Match Payments:							
FY 2010 - Estimated total amount state anticipated to be paid out							
Disaster 1600, 1615, and 1626			\$ 98,805		\$ 741,036	\$ 148,207	
Disaster 1675			\$ 3,053,754		\$ 22,903,155	\$ 4,580,631	
Disaster 1699			\$ 309,803		\$ 2,323,523	\$ 464,705	
Disaster 1711			\$ 765,231		\$ 5,739,233	\$ 1,147,847	
Disaster 1741			\$ 2,948,402		\$ 22,113,015	\$ 4,422,603	
Disaster 1776			\$ 1,896,859		\$ 14,226,443	\$ 2,845,289	
Disaster 1808			\$ 187,263		\$ 1,404,473	\$ 280,895	
Disaster 1848			\$ 861,459		\$ 6,460,943	\$ 1,292,189	
Disaster 1849			\$ 152,003		\$ 1,140,023	\$ 228,005	
Disaster 1860			\$ 906,359		\$ 6,797,693	\$ 1,359,539	
City of Greensburg Operations Cost			\$ -		\$ -	\$ -	
Emergency Operations Center Taskings			\$ -		\$ -	\$ -	
Direct Federal Assistance			\$ 14,048		\$ 42,144	\$ -	
PA Management Costs			\$ 433,476		\$ 1,300,428	\$ -	
	Total		\$ 11,627,462		\$ 85,192,105	\$ 16,769,907	
Funds Required for Remainder of SFY 2010					\$ 0	\$ 2	\$ 0
FY 2011 - Estimated total amount state anticipated to be paid out							
Disaster 1600, 1615, and 1626			\$ -		\$ -	\$ -	
Disaster 1675			\$ 7,246,357		\$ 54,347,678	\$ 10,869,536	
Disaster 1699			\$ -		\$ -	\$ -	
Disaster 1711			\$ 321,611		\$ 2,412,083	\$ 482,417	
Disaster 1741			\$ 18,592,743		\$ 139,445,573	\$ 27,889,115	
Disaster 1776			\$ 1,851,941		\$ 13,889,558	\$ 2,777,912	
Disaster 1808			\$ -		\$ -	\$ -	
Disaster 1848			\$ 616,054		\$ 4,620,409	\$ 924,082	
Disaster 1849			\$ 152,004		\$ 1,140,026	\$ 228,005	
Disaster 1860			\$ 906,359		\$ 6,797,693	\$ 1,359,539	
Direct Federal Assistance			\$ -		\$ -	\$ -	
PA Management Costs			\$ 273,782		\$ 821,346	\$ -	
	Total		\$ 29,960,851		\$ 223,474,364	\$ 44,530,604	
Subtotal of Funds Required for SFY 2011					\$ 29,960,851	\$ (223,474,364)	\$ (44,530,604)
Less: Funds provided by Appropriations					\$ -		
Less: Funds Reappropriated from FY 2010					\$ -		
Funds Required for SFY 2011					\$ 29,960,851	\$ (223,474,364)	\$ (44,530,604)



Ed Van Petten
Executive Director

Mark Parkinson
Governor

**Testimony Before The
House Appropriations Committee
Agency Update January 19, 2010**

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 is considering the possibility of proposing legislation permitting vending machines in Kansas. Technology has advanced to the point that age verification is included with the machines, thus eliminating the possibility of minors purchasing lottery products from the machines. All research has not yet been completed; therefore no proposal has been brought forth at this time.

II. Sales

Sales for FY 2009 totaled \$230,505,668. We are presently about 3.84% above last year's sales. Instant ticket sales are about even from last year, with increases of just over 10% on all three jackpot games. Both Keno and Kansas Hold'em, our monitor games, are showing a drop in sales. These games are played mostly in social environments and have been showing slight decreases the last few years.

Arkansas joined the Powerball game this fall bringing the total number of members to 33. In addition, the states in the Multistate Lottery Association have reached an agreement with the states in the MegaMillions consortium, to allow cross selling of each other's games. Starting January 31, 2010, the MegaMillions game will be available at all Kansas Lottery retailers.

Two years ago 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 third "Midwest Millions" ticket. Sales of that game have been strong, and continue to be. On January 15 the first of two drawings was held in Topeka for \$500,000. The second drawing for \$500,000 will be in Des Moines, Iowa on April 16.

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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 have 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 \$72 million. Since this change was made, transfers have increased from \$60.5 million in FY 2002, to approximately \$70 million the past few 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 the last 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."

Beginning last summer we initiated the Retailer Honesty Assurance Program, to make sure our players are treated fairly by retailers. Tickets appearing to be winning tickets were presented to a number of retailers. On six occasions the person working informed our undercover agent that the ticket was not a winner. Those persons are being prosecuted by the Office of the Attorney General for Attempted Theft and Computer Crimes. Both charges are felonies. Thus far there has been one conviction, and the other five are pending. Three of the people charged were owners of the businesses or a family member. Those contracts were immediately terminated. We allowed the other three retailers to continue selling, if the offending employee was terminated.

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 \$13,446,468, with total commissions paid through FY 09 of \$207,783,560.

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. We have also promoted tourism in our state with "Flint Hills Treasures," "The Great Santa Fe Trail Horse Race," "Sunflower State Games" and most recently "Painted Byways" a game featuring our nine scenic byways and artwork by Stan Herd. We enjoyed a great partnership with the Kansas Department of Transportation, Kansas Department of Commerce and the Kansas Arts Commission in promoting the byways of Kansas. Other partners include the Wichita Riverfest, the 3i Show, Garmin, Cougar Boats, Cabela's, Bass Pro Shops and Kansas Department of Wildlife and Parks. 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 over \$5 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

FY 09 sales for the Veteran's Benefit Games were \$5,064,820, which resulted in a transfer for those programs of \$1,628,958. 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 are now being sold year round.

VII. New Games this Year

We now have the capacity to conduct raffle style games after the completion of the system conversion and just completed the first raffle, called "The Holiday Millionaire Raffle." Veronica Mason of Wichita, won \$1 million. We also have five \$50,000 winners and five hundred \$500 winners in the game. We had 150,000 tickets in the game which launched on October 18. All tickets sold out on November 24, proving the game to be a huge success.

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VIII. RFP's

In the past year we awarded a new contract for the Lottery headquarters and warehouse. Our present landlord acquired the building to the south of our present building and is in the process of remodeling. We will occupy both buildings, allowing us to have all offices and storage together.

IX. EXPANDED GAMING

A. SOUTHEAST GAMING ZONE (Crawford and Cherokee counties)

Following the 2008 withdrawal of Penn National Gaming to become a lottery gaming facility manager applicant in the Southeast Gaming Zone the application process was recommenced. Several deadlines for new applications had passed before one was received in October, 2009; however, that application was rejected in part because the applicant failed to demonstrate adequate Class III gaming experience and sufficient access to financial means to make the project viable. The deadline to file applications in the Southeast Gaming Zone on January 15, 2010 passed with no applications having been received. The new deadline is April 16, 2010.

B. SOUTH CENTRAL GAMING ZONE (Sumner County)

In 2008 the Lottery successfully negotiated contracts with three manager applicants in this Zone. Of those, the Lottery Gaming Facility Review Board (Review Board) chose Sumner Gaming Joint Venture, which casino was to have been operated at the Mulvane exit of the Kansas Turnpike under the Harrah's name. Before that contract became binding they chose to withdraw citing the world-wide financial crisis.

Prior to the new deadline of April 1, 2009 the Lottery received applications from the following three entities: Lakes Development; Chisholm Creek (the Foxwoods, owned by the Mashantucket Pequot Tribe); and Prairie Sky (Peter Simon, John Ensign, and others). Prior to negotiating a final contract Prairie Sky withdrew and Lakes Development and Chisholm Creek combined their efforts under the Chisholm Creek application, thereby leaving one joint applicant in the Zone. In addition, the Foxwoods' component of the project was taken over by Och-Ziff Development and Clairvest, with ownership interests as follows: Lakes Development 17%; Och-Ziff 50%; and Clairvest 33%.

The Lottery Gaming Facility Review Board conducted a series of hearings regarding both the South Central and the Northeast Gaming Zone. Based upon a desire to firm up plans to build a hotel as part of the gaming facility enterprise, as well as consider the impact of a potential tribal gaming facility in or near Wichita, Chisholm Creek requested the Review Board return the contract to the Lottery for further negotiation (to which request the Lottery acquiesced). Those revised contract negotiations are ongoing at this time.

C. NORTHEAST GAMING ZONE (Wyandotte County)

In 2008 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.

Bids were re-opened with a new deadline of April 1, 2009. Three applications were received, as follows: Penn National Gaming; Kansas Entertainment (The International Speedway Corporation and the Cordish Group, the same entity previously selected by the Review Board); and Golden Gaming. Golden Gaming dropped out of the process almost immediately but contract negotiations commenced with the two remaining applicants.

The Lottery had negotiated a final contract with Kansas Entertainment and was all but done with the Penn National contract when both applicants asked for the process to be suspended for a short period of time. At the end of that time the applicants announced that the Cordish Group was withdrawing from the Kansas Entertainment application and Penn National would be taking its place. Further, the "Hard Rock" name and theme of the casino would be changed to a "Hollywood Kansas."

As mentioned above, the Review Board conducted a series of hearings, which in December 2009 resulted in a unanimous decision to approve the Kansas Entertainment contract (now comprised of The International Speedway Corporation and Penn National Gaming). The Kansas Racing and Gaming Commission (KRGC) is now conducting its background and suitability investigation, which is expected to be completed sometime in February.

Assuming the contract is approved by the KRGC, Kansas Entertainment intends to commence construction of the "Hollywood Kansas" casino on the second turn of the Kansas Speedway in Kansas City, Kansas in May of this year. The target completion date is 14 months thereafter.

At opening the 100,000 square foot gaming floor will house 2,300 slot machines and 86 table games. Amenities include 28,000 square feet of restaurants, clubs, retail, and night-life attractions. The second phase of the project includes not only additional gaming floor space, but a hotel with a minimum of 250 rooms, which is to be completed within 24 months of the initial opening of the casino, along with additional meeting facilities, lobby bar, and other food and beverage amenities.

D. SOUTHWEST GAMING ZONE (Ford County)

In 2008 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 & 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.

A ground-breaking ceremony was conducted on December 22, 2008 and construction commenced immediately thereafter. Following various testing and controlled demonstrations, the Boot Hill Casino & Resort opened to the general public on December 15, 2009, with Governor Parkinson conducting the official ribbon cutting on December 16.

“Phase I” of the gaming facility includes approximately 585 slot machines and 12 table games. Amenities include a full-service restaurant, a snack bar, a “saloon”, and a retail shop. In the partial month of operations thus far, net gaming facility revenues have varied widely on a daily basis, but have averaged in excess of \$100,000 per day. “Net gaming facility revenues” are all amounts wagered less prizes paid, which net amount is then available for distribution to the State (22%), the manager (73%), the city and county (1.5% each), and the Problem Gambling and Addictions Grant Fund (2%).

“Phase II” of the project is to be completed no later than February 2011, which will include the final build-out of the 120-room hotel, conference center, spa, swimming pool, and other ancillary facilities and will bring the total number of slot machines to about 875 with additional table game positions as well. Furthermore, the independently funded “Events Center” being built by Dodge City and Ford County immediately adjacent to the Boot Hill Casino is presently underway with an anticipated completion date of February 2011.

E. RACETRACK GAMING FACILITIES

As reported last year, the Lottery previously 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 had 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 stated their intent to seek amendments to the KELA during the 2009 legislative session, but no such amendments materialized. We assume those efforts will continue during the 2010 session.

**Testimony on Unemployment Insurance Trust Fund
to
The House Appropriations Committee**

**by Jim Garner
Secretary
Kansas Department of Labor**

19 January 2010

Chairman Yoder and Members of the Committee:

Thank you for giving me this opportunity to appear before you today to give you an update on the Unemployment Insurance Trust Fund and its solvency. The Unemployment Insurance Trust Fund is funded by employers' contributions through the unemployment insurance tax and the interest earned from that money.

Under state law, if the balance of the Trust Fund on July 31 of the current year meets the state's average high cost multiple, employers can be granted a reduction in their contribution amount for the coming calendar year. Kansas' average high cost multiple threshold is 1.2, which means the balance of the Trust Fund is sufficient—without additional revenue—to provide benefits for 1.2 years at a rate equivalent to the rate during the worst three quarters of the past 20 years. These contribution reductions have been in place in Kansas for the past three years, saving Kansas employers an estimated \$286 million.

Given the reduction in the Trust Fund balance, the statutory trigger for reduced tax rates is no longer met. For CY 2010, rates have reverted back to standard rates pursuant to the process set in statute. An employer's UI contribution rate is determined by a number of factors including length of time in business, experience rating, average annual payroll and level of the Trust Fund balance. I have attached A Guide to Understanding Kansas Tax Rates 2010 that outlines how these rates are calculated for employers.

Kansas employers received notices in the mail in mid-December advising them of their new contribution rates. While each employer's tax rate will be different based upon their unique circumstances, I can tell you that the average tax rate in 2009 was 0.49% of total wages—that was with the tax reductions in place. The estimated tax rate for 2010—when the reduction will no longer be in place is 1.02% of total wages. In terms of taxable wages, the average 2009 tax rate was 2.02%; the average 2010 estimated tax rate on taxable wages is 4.37%. (Unemployment taxes are assessed on the first \$8,000 of wages paid per employee.) Of course some employers will pay less than this rate and others will pay more. Many positive balance experience rated employers will be paying at the maximum rate of 5.4% in CY 2010. In addition, employers with negative account balances will pay up to 7.4%—a surcharge of up to 2.0% is assessed based the employer's particular experience.

These contributions are made by employers on a quarterly basis. The first payments under the new tax rates will be received in April 2010. These funds are used to pay UI benefits to out-of-work Kansas employees who qualify for unemployment benefits.

Appropriations Committee
Date 1-19-10
Attachment 6-1

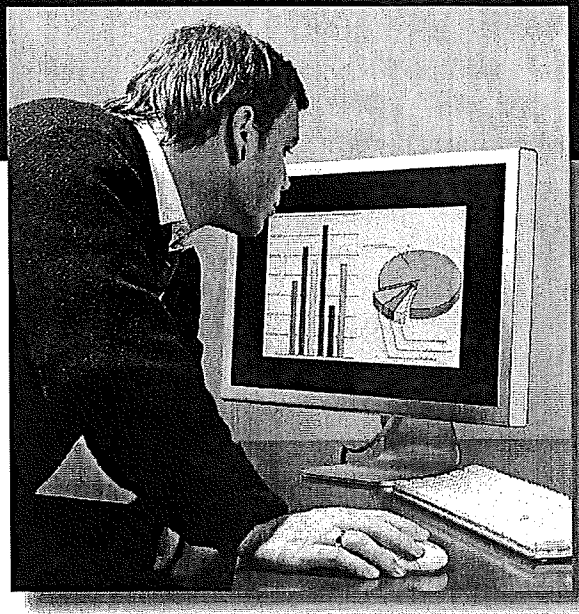
8-9
Our Trust Fund balance as of the week ending January 10, 2010 was \$65,199,253 million. We started 2009 with a Trust Fund balance of \$566.5 million.

Last year at this time, the U.S. Department of Labor listed Kansas 19th among 53 states and territories in terms of trust fund solvency. Since that time, the outflow of benefits from the UI Trust Fund has increased to an unprecedented level over a short time span. Prior to the current recession, the highest monthly benefits payment amount was \$39 million in July 2003. By June 2009 that figure had increased significantly to \$78 million.

Trust fund solvency is a national situation. To date, 25 states have had to borrow funds from the federal government to cover unemployment claims. Attached is a list of those states. Kansas will join that list later this month or next month. As many as 35 states will be borrowing by the end of 2010.

The Employment Security Advisory Council (ESAC), a group comprised of members from the business community, labor organizations and economists from our universities, is charged with providing recommendations regarding the UI Trust Fund. The ESAC has been meeting to develop a recommendation for the Legislature on how to rebuild the Trust Fund and pay off any federal loans that may be needed. They are meeting again later today to continue to discuss options. I will keep you apprised of any action ESAC takes.

Thank you for allowing me to share this information. I'm happy to answer any questions you may have.



A Guide to Understanding . . .

2010 Kansas' Unemployment Insurance Tax Rates

The Kansas UI Trust Fund is funded by employers' contributions, through the UI tax rate. This year several factors have contributed to UI tax rate increases. At the close of each fiscal year, June 30, computations are begun on each contributing employer's tax rate for the succeeding calendar year. An explanation of all factors that establish the tax rates is provided in this guide.

Unemployment Insurance Taxes

There are two types of unemployment insurance taxes that employers pay.

- **FUTA** – This is the federal tax of 6.2% paid by employers. However, for states with qualifying programs, like Kansas has, there is a 5.4% credit. Thus, 0.8% on the first \$7,000 in wages is the effective FUTA rate for employers in Kansas.
- **SUTA** – This is the state tax and employers are charged between 0% and 5.4% on the first \$8,000 in wages. For negative balance experience rated employers, there is up to a 2.0% surcharge.

Determining Annual Planned Yield

Before any rates are established, we must determine the amount of funds needed the next year pursuant to the statutory formula. It's called the Annual Planned Yield. First, we determine the Reserve Fund Ratio.

$$\frac{\text{Trust Fund Balance}}{\text{Total of Payrolls}} = \text{Reserve Fund Ratio}$$

This calculation along with the tax table in K.S.A. 44-710a is used to determine the planned yield. The planned yield for 2010 is \$407 million. In 2009 it would have been \$304 million if not for the reduced tax rates. The reduced tax rates cut the 2009 Planned Yield to \$198 million. The average tax rate in 2009 was 0.49% of total wages, after the tax reductions were in place. The estimated tax rate for 2010, when reductions aren't in place, is 1.02% of total wages. In terms of taxable wages, the 2009 average tax rate was 2.02% and the 2010 estimated average tax rate on taxable wages is 4.37%. This can vary depending on each employer's experience.

How Annual Planned Yield is Collected

The Annual Planned Yield is collected from newly liable employers, positive balance experience rated eligible employers and negative balance experience rated eligible employers.

New Employers: New liable employers have less than 3 years of experience. They are assigned a rate of 4.0% except employers in the construction industry who are assigned a rate of 6.0%.

Experience Ratings

Each employer has their own experience rating. The experience rating is a procedure for varying employer rates and allocating costs of the UI program in relation to the employer's actual and potential risk with unemployment. Three key factors impact an employer's tax rate:

- Individual employer's history with UI
- Individual employer's average annual payroll
- Balance of UI Trust Fund

Here's how it's computed:

An employer's account balance indicates an employer's actual experience with unemployment for all prior years.

$$\frac{\text{Total Contributions Paid} - \text{Total Benefits Charged}}{\text{Account Balance}}$$

The average annual payroll indicates an employer's potential risk in regard to unemployment. It is the average of the taxable payrolls for the immediate past three calendar years.

Using these two figures, the Reserve Ratio is determined.

$$\frac{\text{Account Balance}}{\text{Average Annual Payroll}} \times 100 = \text{Reserve Ratio}$$

An employer's basic contribution rate is fixed according to the reserve ratio table in the law. The basic rate is then adjusted based on the need for contributions for the Trust Fund.

Positive Balance Experience Rated Employers:

Positive balance employers have contributed more in taxes than they have been charged in benefits. They are arrayed across 51 rate groups in accordance to the relative size of their reserve ratio in comparison to all other eligible positive balance employers. Each rate group contains approximately 1.96% of the taxable wages paid by all eligible employers. These employers are placed in order by reserve ratio with the highest placed in rate group 1 and the lowest at the bottom in rate group 51.

Parameters impacting the Positive Balance Experience Rated Employers:

- The rate is capped at 5.4%.
- Taxes are collected on only the first \$8,000 of wages paid.

This results in 28 of the 51 rate groups at the maximum rate of 5.4%.

Negative Balance Experience Rated Employers:

A negative balance employer has more benefits charged to the employer's account than the amount of taxes paid and credited to the account. Employers with a negative account balance are charged with the maximum rate provided in the law – 5.4%. In addition to the maximum rate, negative account balance employers are subject to a surcharge. The surcharge is based upon the size of the employer's negative reserve ratio with a minimum of 0.2% and a maximum of 2.0%. With the surcharge, the total rates range from 5.6% to 7.4%.

Tax Rate Notices

Tax rate notices are mailed to all contributing employers in December of each year. This notice provides each employer with information about the status of the employer's experience rating account and the contribution rate for the next calendar year. An employer has 15 days from the mailing date of the notice to request a review and redetermination and set forth in writing the reasons for the request.

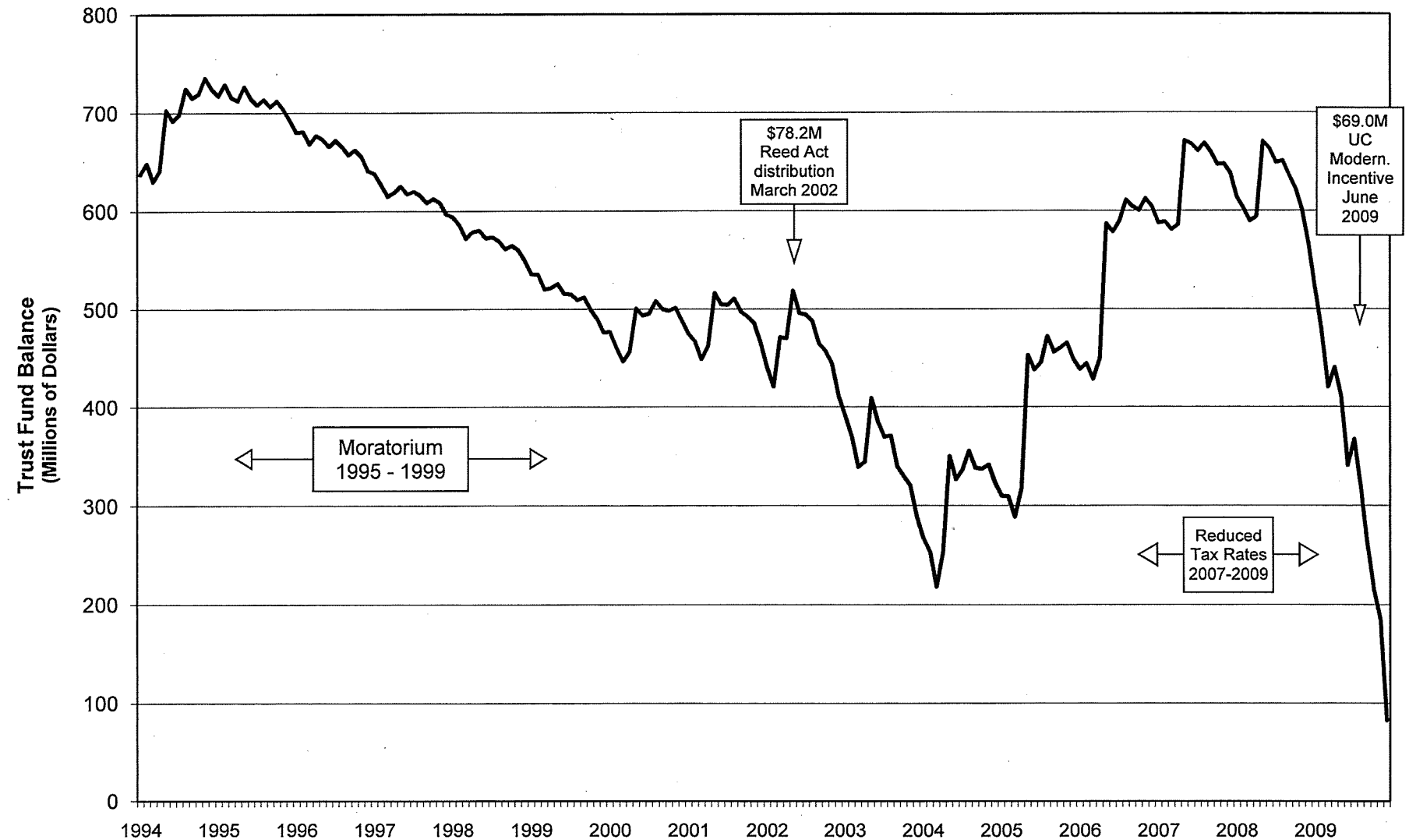
Timeframe to Pay Taxes

Employers are required to pay taxes each quarter; the first of 2010 will occur at the end of April. The Quarterly Wage Report and Unemployment Tax Return is due on the last day of the month following the end of each calendar quarter and must be filed even if there were no reportable wages or contributions due for the quarter.

Sources of Additional Information

If you have more questions or seek more information about the UI tax rates, please contact KDOL at (785) 296-5000 or go to our Web site at www.dol.ks.gov.

Trust Fund Balance by Month January 1994 - December 2009



Source: Labor Market Information Services, Kansas Department of Labor
Year

Trust Fund Loans

- Outstanding Loans from the Federal Unemployment Account.
Balances as of January 11, 2010 are:

Alabama	\$155,804,887.57
Arkansas	\$240,916,838.92
California	\$6,320,715,136.61
Connecticut	\$213,189,745.66
Florida	\$1,014,100,000.00
Georgia	\$109,000,000.00
Idaho	\$117,969,625.22
Illinois	\$1,254,384,850.08
Indiana	\$1,533,042,647.82
Kentucky	\$596,037,951.27
Michigan	\$3,240,682,333.32
Minnesota	\$316,140,492.79
Missouri	\$496,041,228.88
Nevada	\$157,095,684.42
New Jersey	\$1,033,862,333.38
New York	\$2,263,795,145.16
North Carolina	\$1,674,314,456.01
Ohio	\$1,797,837,799.00
Pennsylvania	\$2,015,903,659.46
Rhode Island	\$139,377,341.68
South Carolina	\$713,973,304.00
South Dakota	\$9,083,024.42
Texas	\$1,409,348,300.81
Virgin Islands	\$8,911,994.43
Virginia	\$141,459,000.00
Wisconsin	\$975,460,729.02
Total	\$27,948,448,509.93

Source: U.S. Department of Labor