

To: Senate Committee on Federal and State Affairs

From: Edward James Bain, Staff Attorney on behalf of Kansas Racing and Gaming Commission staff

Date: March 18, 2024

Re: SB 535 Opposition Testimony

Chairman Thompson and Members of the Committee,

The staff of the Kansas Racing and Gaming Commission (KRGC) thank Chairman Thompson and the rest of the committee for the opportunity to address our opposition to SB 535. SB 535 inadvertently creates a loophole for *manufacturers* of products that will be used on the gaming floor or that will interface with casino or Lottery systems. Because of this, KRGC opposes this bill.

Manufacturers of gaming supplies are backgrounded and licensed, not only to ensure their integrity (to the extent possible,) but also to have an entity that can be held responsible when a product fails to operate as designed or used. The KRGC cannot hold an unlicensed manufacturer responsible for its failed product if another licensed supplier resells the product.

In fiscal year 2023, the four Kansas Lottery owned casinos produced \$407 million in revenue with \$97 million transferred to the State of Kansas. When the Kansas Expanded Lottery Act was signed into law in 2007, the Kansas Racing and Gaming Commission's mission was broadened to include the promulgation of rules and regulations which promote the integrity of gaming and finances of lottery gaming facilities. As part of this mission and authority, KRGC established that manufacturers of gaming supplies and some financial or accounting equipment would need to obtain a license to put the equipment into use at a lottery gaming facility.

The process of becoming a licensed manufacturer includes a background check of key shareholders and employees and a certification that the gaming supply or financial equipment operates in a fair and honest manner. Examples of gaming supplies or financial equipment that must be licensed include slot machines, roulette wheels, playing cards, card shuffling machines, ATMs, and accounting equipment connected to the computer system of the gaming facility.

SB 535 would allow these manufacturers to evade the licensing process simply by obtaining the services of a licensed vendor or intermediary to sell their product to the gaming facilities. This opens the door to an inconsistent and unfair system of licensing where a *manufacturer* using a third-party vendor can avoid the background process by relying on a licensed supplier who sells directly to a gaming facility. SB 535 incentivizes manufacturers to use a third-party vendor's license to sell their products to avoid its own backgrounding and licensure.

A significant obligation license holders agree to is reporting to KRGC any regulatory or criminal investigations they are subject to in other states or countries outside the United States. Since manufacturers could be unlicensed under SB 535, they would be under no obligation to inform KRGC of these types of investigations. Without this reporting requirement KRGC may never become aware of integrity issues relating to a manufacturer.

Without a backgrounding and licensing requirement, a manufacturer of gaming products used in Kansas gaming facilities cannot be held to state regulatory requirements nor can they be held to the state mandate of ensuring the integrity of gaming in Kansas. Under SB 535, a manufacturer that commits a regulatory violation cannot be held accountable. KRGC's only avenue to address the matter would be to deny shipment of the product. This then affects the business operation of the gaming facility. Currently, far less disruptive measures can be taken because KRGC has a direct line of communication with the licensed manufacturer and can efficiently satisfy any KRGC concerns. This would not be possible if SB 535 is implemented because the unlicensed entity would likely be unknown and could not be dealt with directly for a solution.

SB 535, in its current form, would create an unlevel playing field and an unmanageable situation in which a manufacturer of essential gaming supplies and financial equipment may avoid backgrounding and licensure by merely using a licensed gaming supplier and circumventing the processes the state has created to protect the integrity of gaming in Kansas. It is imperative that KRGC continue to license and investigate manufacturers of equipment that determine how hundreds of millions of dollars are won or lost in gaming facilities each year.

Thank you for your time and consideration.

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