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**Testimony Before The  
Senate Federal and State Affairs Committee  
Agency Update January 11, 2012**

Presented By:  
Dennis Wilson, Executive Director  
and  
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Kansas Lottery

Mr. Chairman and members of the Committee:

**I. Lottery Staff Introductions**

- Neysa Thomas, Deputy Executive Director
- Keith Kocher, Director of Gaming Facilities
- Carolyn Brock, Director of Finance

**II. Sales**

Sales for FY 2011 totaled \$232,372,510. We were about 1.29 percent below the previous year's sales. Instant ticket sales were up 3.53 percent in FY 2011, with decreases in Powerball and increases in Mega Millions and Super Kansas Cash. 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.

To date in 2012, we are trending up in overall sales by 1.37 percent. Powerball, Mega Millions and Super Kansas Cash are all up over 2011 with Super Kansas Cash up over 22 percent; 2by2 and Pick 3 are also up. Instant sales in December are up over last year's December by 9 percent.

In FY 2011, we paid retailer commissions of \$13,783,253.

### **III. Transfers**

In FY 2011, \$70 million was transferred to the state. There are a few numbers other than transfer amounts that often go unreported but also have a significant impact on the dollar amount the Lottery contributes to the State. In FY 2011, \$825,000 was withheld in income taxes on prizes paid. To date in 2012, that amount is \$587,000. By partnering with the State's Accounts and Reports Setoff Program, the Lottery also withheld \$95,000 in prizes paid in FY 2011 and so far in 2012, \$118,000.

### **IV. Security Operations**

Lottery staff takes pride in its commitment to security and as such, security continues to be our primary focus, both in the gaming system and field operations.

Beginning January 2012, select Kansas Lottery instant games will feature a new and faster validation process called keyless validation — a state-of-the-art barcode printed on the front of the ticket in the play area. The new barcode can be found under the latex on instant scratch tickets and under the tabs on instant pull tab tickets.

Keyless validation will allow players to win check and retailers to validate tickets by simply scanning the new barcode. The location of the keyless validation barcode will vary by game. In addition to the keyless validation barcode, the barcode and validation number, along with the three-digit security code currently found on Kansas Lottery tickets, may still be used to validate tickets, if needed.

Players will still be able to ask a retailer to check and validate tickets as they are currently. As Kansas Lottery games expire and new games are developed and printed, the keyless validation feature will be implemented to ultimately include all instant games.

We still successfully operate the Retailer Honesty Assurance Program, which ensures our players are treated fairly by retailers.

Lottery Security also investigates complaints that involve micro-scratching. Micro-scratching is the term used when a clerk removes a tiny amount of latex from the play area of a scratch ticket, in an effort to determine if the ticket has a prize. If the ticket has a prize, the clerk purchases and cashes the ticket. If there is no prize, the ticket is sold to an unsuspecting customer. Store owners and managers consistently express gratitude when these and other fraudulent acts are brought to their attention. These investigations also support the culture of one of the main missions of the Security division – to maintain the integrity of the Lottery and its games.

## **V. Partnerships**

We continue to develop marketing partnerships with Kansas businesses and industries as we have the past several years. Kansas Speedway continues to be a great one of the great venues to highlight the benefits of a Lottery partnership and also continues to be an exceptional marketing value. We have recently begun meeting with the Department of Kansas Wildlife, Parks and Tourism about uniting efforts to increase tourism in the State and we will continue to work closely with them to partner our vision and the State vision in combined marketing and advertising efforts.

## **VI. Veteran's Benefit Games**

In FY 2011 we transferred \$755,687 for Veteran's programs, bringing the total to \$7,259,361 since legislation authorizing these games was passed in 2003. Presently the transfer goes 40 percent for National Guard Educational Assistance Act scholarships, 30 percent to the Veteran's Home fee fund and 30 percent to the Veteran's Enhanced Service Delivery Program.

## **VII. New Games for FY 2012**

We just completed our third year of the popular "Holiday Millionaire Raffle." The grand prize is \$1 million. There are also more than 1,000 other prizes ranging from \$100 to \$10 thousand. To maintain excitement for the game, ten \$10,000 'Early Bird' prize drawing were added. As in the previous two years' drawings, only 150,000 tickets were printed and sold for the game which launches in October each year. All tickets sold out weeks earlier than the FY 2011 version, proving the game to be a huge success yet again.

January 1 of calendar year 2012 begins a year-long celebration of the Lottery's 25<sup>th</sup> anniversary. The marketing and communications staff is working diligently to develop games and promotions tied to the 25<sup>th</sup> Anniversary theme designed to generate excitement among players and attract new players to the Lottery and entice some of our old players back into the games. For example, our new 25th Anniversary Game Book is the perfect entertainment for puzzle enthusiasts. The \$20 game offers players a chance to play nine of our most popular puzzle games, all in one book and players can win up to \$100,000 instantly.

The Lottery will also be celebrating its silver anniversary by offering players a chance to set sail on a cruise with the \$5 Kansas Lottery 25th Anniversary Cruise instant scratch ticket, which offers players a chance to win one of four 8-day, 7-night cruises for two on a Royal Caribbean ship.

## **VIII. NEW ISSUES FOR FY 2012**

- Online Gaming
- 'Gray' Machines

## **IX. EXPANDED GAMING**

### **A. SOUTHEAST GAMING ZONE (Crawford and Cherokee Counties)**

Following the 2008 withdrawal of Penn National Gaming's application to become a lottery gaming facility manager 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 for receipt of applications in this Gaming Zone has been extended indefinitely until such time as the Kansas Lottery receives a properly filed application. Upon the Kansas Lottery Commission determining that a properly filed application has been received, the deadline for the receipt of additional properly filed applications will be extended from the date of such determination for an additional period of sixty (60) calendar days.

### **B. SOUTH CENTRAL GAMING ZONE (Sumner and Sedgwick Counties)**

Following two rounds of applications in the South Central Gaming Zone in which all applicants withdrew, the Lottery solicited bids for a third time. Three applications were received prior to the July 2010 deadline. Global Gaming KS, a subsidiary of Global Gaming Solutions (owned by the Chickasaw Nation of Oklahoma) proposed a site near Wellington. Harrah's, which had won the bid during the first round, and Peninsula Gaming Partners, a subsidiary of Peninsula Gaming, LLC, each proposed sites near Mulvane.

The Lottery successfully negotiated contracts with all three applicants; however, on the day the Lottery Commission was to consider approving those contracts Harrah's once again withdrew. The Lottery Commission approved the remaining two contracts, which by law were subsequently forwarded to the seven-member Lottery Gaming Facility Review Board.

As with all prior contracts, the Review Board engaged various experts and conducted a series of hearings, which in December of 2010 culminated in selection of Peninsula Gaming's "Kansas Star" casino by a 6-to-1 vote. That selection was communicated to the Kansas Racing and Gaming Commission to conduct the security and suitability investigation, the last leg of the

approval process. The KRGC Commission approved Peninsula Gaming in January of 2011 and ground was broken in March.

As planned, Peninsula constructed an interim facility housing approximately 1,310 slot machines, 32 table games, three restaurants and other amenities. This interim structure will eventually become the permanent indoor equestrian and events center. Construction of the permanent casino structure is well underway with an expected occupancy of no later than February, 2013. The permanent casino is slated to initially house approximately 1,500 slot machines and 42 table games, with a 150-room hotel, indoor equestrian show and events center, restaurants, and a variety of other typical amenities. Long range plans through the year 2015 include another expansion of the gaming floor with up to 2,000 slot machines, an additional 150 hotel rooms, and build-out of the equestrian facility.

Under the control of the KRGC and Kansas Lottery, Kansas Star conducted a controlled demonstration (test run) on December 16, 2011. The test was successful and the KRGC certified the Kansas Star to open to the general public. During the controlled demonstration the casino netted approximately \$201,500 (the manager's share of proceeds, or about \$147,000, was donated to seven charities). The casino opened to the general public on a limited schedule on December 20 and has been opened since that time (other than on December 25). Through January 8, 2012 unaudited net gaming revenue has been approximately \$10,423,570.36.

Total projected net gaming facility revenue for the interim facility for FY12 is \$75.6 million, and approximately \$163 million in FY13 (with a portion of that year still in the interim facility and the remainder in the permanent casino). NOTE: "Net gaming facility revenues" are all amounts wagered less prizes paid, which net amount is then available for distribution as follows: the State (22 percent); the manager (73 percent); the City of Mulvane (1 percent); Sumner County (1 percent); Sedgwick County (1 percent); and, the Problem Gambling and Addictions Grant Fund (2 percent).

#### **C. NORTHEAST GAMING ZONE (Wyandotte County)**

After two failed rounds of applications in 2007 through early 2009, bids were re-opened with a new deadline of April 1, 2009. Three applications were received: Penn National Gaming; Kansas Entertainment (International Speedway Corporation and the Cordish Group, the same applicant selected by the Review Board in the prior round of bidding); and Golden Gaming. Golden Gaming dropped out of the process almost immediately but contract negotiations commenced with the two remaining applicants.

The Lottery 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 took its place (and withdrew its separate application).

The Review Board conducted its standard series of hearings, which in December 2009 resulted in a unanimous decision to approve the Kansas Entertainment contract (now comprised of International Speedway Corporation and Penn National Gaming). The Kansas Racing and Gaming Commission (KRGC) finalized its background and suitability investigation and voted to approve the manager on February 12, 2010.

Kansas Entertainment immediately commenced construction of the "Hollywood Casino at Kansas Speedway" on the second turn of Kansas Speedway in Kansas City, Kansas. Construction has continued on schedule and pending final regulatory approval the casino is tentatively scheduled to open to the public next month on February 3, 2012.

At opening the gaming floor will house approximately 2,000 slot machines and 54 table games. Amenities include a covered parking garage, restaurants, clubs, and retail. Net gaming facility revenue estimates for the facility are approximately \$61 million in FY12 and \$175 million in FY13. Distribution of those revenues will be: the State (22 percent); the manager (73 percent); the Unified Government of Wyandotte County and Kansas City, Kansas (3 percent); and, the Problem Gambling and Addictions Grant Fund (2 percent).

#### **D. SOUTHWEST GAMING ZONE (Ford County)**

Boot Hill Casino & Resort opened to the general public on December 15, 2009. "Phase I" of the gaming facility included approximately 584 slot machines and 12 table games. Amenities include a full-service restaurant, a snack bar, a "saloon", and a retail shop. Net gaming facility revenues at Boot Hill Casino for FY12 only through December 31, 2011 were just over \$21.5 million. Net gaming facility revenues from the date of opening of the casino in 2009 through December 31, 2011 have been just over \$82 million. During that period of time the State of Kansas' 22 percent share amounted to approximately \$18 million.

"Phase II" of the casino project is to be completed in the late summer or early fall of this year. That phase will include an expansion of the gaming floor bringing the total number of slot machines to about 800 and increasing the number of tables games to about 20 (including a dedicated poker room), and an area in which the Lottery's "Keno" game can be played. Almost complete is a 108-room "Hampton Inn & Suites" hotel, which is right next to the Casino

and slated to open to the public in the spring of this year. Furthermore, the independently funded "United Wireless Arena" and "Magouirk Conference Center" jointly built by Dodge City and Ford County immediately adjacent to the Boot Hill Casino have been in full operation for almost a year.

#### **E. RACETRACK GAMING FACILITIES**

As previously reported, several years ago the Lottery negotiated extensively with the Woodlands Racetrack in Kansas City but was unable to reach a final contract. The Lottery agreed the Woodlands would receive virtually every dollar of net machine income they possibly could receive under the provisions of the KELA, but the manager still found that unfeasible. The owner of the Camptown Racetrack in Frontenac 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 pari-mutuel licensees stated their intent to seek amendments to the KELA during prior legislative sessions, but no amendments have been passed into law. All pari-mutuel racetracks closed their doors and subsequently the Kansas Racing and Gaming Commission revoked both pari-mutuel licensees' licenses to conduct races.