

February 3, 2011

The Honorable Brenda Landwehr, Chairperson
House Committee on Health and Human Services
Statehouse, Room 151-S
Topeka, Kansas 66612

Dear Representative Landwehr:

SUBJECT: Fiscal Note for HB 2039 by House Committee on Health and Human Services

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2039 is respectfully submitted to your committee.

HB 2039 would amend current law regarding smoking in public places to delete the exemption allowed for the gaming floor of any lottery gaming facility or racetrack gaming facility. Currently, these facilities are exempted from the statewide smoking ban passed by the 2010 Legislature in HB 2221.

The Kansas Lottery has consulted with the gaming facility managers who have indicated that the facilities currently operating or being constructed could suffer a significant reduction in revenue should the exemption to the smoking ban be eliminated. A reduction in casino revenue would subsequently affect state and local revenues. An annual average revenue drop of between 10.0 and 30.0 percent could be expected, according to the gaming facility managers, independent experts in the gaming field, as well as information included in independent gaming studies.

Under current law, state-owned gaming facilities are estimated to generate a total of \$82.0 million in net gaming revenue in FY 2012. The distribution of gaming facility revenue is based on a formula detailed in the Kansas Expanded Lottery Act and by the contract between each gaming facility manager and the Kansas Lottery. The gaming facility managers will receive 73.0 percent of the revenue, or an estimated \$59,860,000. The Expanded Lottery Act Revenues Fund (ELARF) will receive 22.0 percent of the revenue, which is estimated to be \$18,040,000. In the Governor's budget, this money is placed in the State General Fund. Cities and counties where gaming facilities are located will receive a total of 3.0 percent of the revenue, which is estimated to be \$2,460,000. The Problem Gambling and Addictions Grant Fund (PGAGF) will receive an estimated \$1,640,000, or 2.0 percent of the revenue.

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If net revenues at state-owned gaming facilities dropped 20.0 percent under the provisions of HB 2039, then total net revenues would be decreased by \$16.4 million, from \$82.0 million to \$65.6 million and revenue would be distributed as follows: gaming facility managers would receive \$47,888,000, the ELARF would receive \$14,432,000, cities and counties where gaming facilities are located will receive a total of \$1,968,000, and the PGAGF would receive \$1,312,000. Net gaming revenue would be reduced further in FY 2013 and beyond as additional gaming facilities plan to open or as existing gaming facilities have planned expansions that were expected to grow net gaming revenues in the future.

It is also important to note that other casino-style gaming facilities in the region are not affected by smoking bans. Gaming facilities in Missouri, Oklahoma, as well as the tribal gaming facilities that currently exist would all continue to operate without a smoking ban on their gaming floors. It is possible that these “competitors” could further affect revenue at state-owned lottery gaming facilities beyond the \$16.4 million revenue decrease estimate. Any fiscal effect resulting from the passage of the bill is not reflected in *The FY 2012 Governor’s Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", written in a cursive style.

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Stephen Durrell, Lottery
Don Cawby, KRGC