



Sam Brownback
Governor

**Testimony Before
The House Federal and State Affairs Committee
Agency Update 2013**

Presented By:
Dennis R. Taylor, Acting Executive Director
Kansas Lottery

Mr. Chairman and members of the Committee:

I. Lottery Staff Introductions

- Keith Kocher, Director of Gaming Facilities

II. Traditional Lottery Sales

Sales for the “traditional” Lottery for FY 2012 totaled \$246,144,512. This was a new annual sales record for Kansas Lottery tickets. A number of higher jackpots for the Powerball and Mega Millions games helped fuel those record sales, including a world-record setting \$656 million Mega Millions jackpot that was shared by three winners – including one from Kansas.

In FY 2012, we paid out almost \$139 million in prizes and retailer commissions of \$14,385,728.

III. Transfers

As a result of the record sales year the Lottery was able to transfer to the State’s financial coffers approximately \$72 million, a record amount. In addition, the State of Kansas received \$8,942,722 state income taxes withheld from prizes paid. Finally, the State was able to collect \$224,283 owed to it through the Department of Administration Debt Set-Off Program that matches outstanding debts owed to the State prior to paying out funds to those owed monies by the State.

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 began featuring 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 allows players to win check and retailers to validate tickets by simply scanning the new barcode. The location of the keyless validation barcode varies by game.

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

In FY 2012, the Kansas Lottery partnered with the Kansas Department of Wildlife, Parks and Tourism on a \$1 instant scratch game. Non-winning “Cabin Fever” tickets can be used for discounts at participating Kansas tourism attractions. Participating businesses that are offering discounts and special offers can be found at www.TravelKS.com.

VI. Veteran’s Benefit Games

In FY 2012 we transferred \$1.35 million for Veteran’s programs, bringing the total to over \$8.6 million 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 fourth year of the popular “Holiday Millionaire Raffle.” The \$1 million grand prize has already been claimed. There are also thousands of other prizes ranging from 2,500 \$100 prizes clear up to 25 \$5,000 thousand. To maintain excitement for the game, ten \$10,000 “Early Bird” prizes were also offered. As in the previous three years’ drawings, only 150,000 of the \$20 tickets were printed and sold for the game which launches in October each year. All tickets sold out well before the drawing proving the game to be a huge success yet again.

January 1 of calendar year 2012 began a year-long celebration of the Lottery’s 25th anniversary. The marketing and communications staff developed a number of

games and promotions tied to the 25th Anniversary theme. For example, our 25th Anniversary Game Book was the perfect entertainment for puzzle enthusiasts. The \$20 game offered players a chance to play nine of our most popular puzzle games, all in one book and players could win up to \$100,000 instantly.

The Lottery also celebrated 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. In June four lucky players won an 8-day, 7-night cruise for two on a Royal Caribbean ship.

The Lottery also helped the State of Kansas celebrate its Sesquicentennial "birthday" with an instant ticket entitled "Kansas 150." This ticket featured a second-chance drawing giving away 10 original paintings by local Kansas artists depicting a variety of points of interest within the State of Kansas.

VIII. 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. 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 (later increased to over 1,425), 32 table games (increased to 35 tables and 5 poker tables), and three restaurants. This interim structure will eventually become the permanent indoor equestrian and events center. Following all applicable approvals the interim casino opened to the general public in December of 2011.

In mid-2012 a proposal was announced whereby Peninsula Gaming Partners would be purchased by or merged with Boyd Gaming Corporation. The proposal was not just for Peninsula's "Kansas Star Casino," but for the entire Peninsula company, including all five of its casinos. All necessary approvals were obtained by November of 2012 and the transfer was completed. Addition of Peninsula's casinos brought the total number of casinos owned by Boyd Gaming to 22.

Construction of the permanent casino structure was substantially completed by December of 2012. The new casino floor and all amenities were fully opened to the public about two months ahead of schedule in late December and an official grand opening was conducted on January 11, 2013. The permanent casino houses approximately 1,825 slot machines and 55 table games (including a 10-table dedicated poker room), with a 150-room hotel that opened in the late fall of 2012. It also offers five restaurants. Conversion of the area previously containing the interim casino into an indoor equestrian show and events center is expected to be completed by this coming summer. 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.

Total gaming facility revenue for the interim facility for FY12 was approximately \$98.9 million. Projections for FY13 are approximately \$194 million (with about half of that fiscal year still in the interim facility and the remainder in the permanent casino).

"Gaming facility revenues" are all amounts wagered less prizes paid, which revenue is then available for distribution as follows:

- State of Kansas: 22%
- Casino manager: 73 % (from which it pays all expenses)
- City of Mulvane: 1%
- Sumner County: 1%
- Sedgwick County: 1%
- Problem Gambling and Addictions Grant Fund: 2%

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 (KRGCC) 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. The successful "controlled demonstration" was conducted on January 30, 2012 and the casino was subsequently opened to the general public on February 3, 2012.

At opening the gaming floor housed approximately 2,000 slot machines and 52 table games. Amenities include a covered parking garage, several restaurants, and retail.

Gaming facility revenue for the facility was approximately \$54.6 million in FY12 with an estimate of about \$120 million for FY13. Again, "gaming facility revenues" are all amounts wagered less prizes paid, which revenue is then available for distribution as follows:

State of Kansas: 22%

Casino manager: 73 % (from which it pays all expenses)

Unified Government of Wyandotte County and Kansas City, KS: 3%

Problem Gambling and Addictions Grant Fund: 2%

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. Gaming facility revenues at Boot Hill Casino for FY12 were about \$43.9 million. Net gaming facility revenues from the date of opening of the casino in 2009 through the end of FY12 have been approximately \$104.6 million. During that period of time the State of Kansas’ 22 percent share amounted to almost \$23 million. Boot Hill Casino’s gaming facilities revenues projected for FY13 are in the neighborhood of \$45 million.

“Phase II” of the casino project was completed in the fall of 2012. That phase included an expansion of the gaming floor bringing the total number of slot machines to 800 and increasing the number of table games to 18 (including a 5-table dedicated poker room). Earlier in 2012 a 108-room “Hampton Inn & Suites” hotel situated right next to the casino opened its doors. On the other side of the casino the “United Wireless Arena” and “Magouirk Conference Center” jointly built by Dodge City and Ford County have been in full operation for about two years.

In the Southwest Gaming Zone “gaming facility revenues” are distributed as follows:

- State of Kansas: 22%
- Casino manager: 73 % (from which it pays all expenses)
- City of Dodge City: 1.5%
- Ford County: 1.5%
- Problem Gambling and Addictions Grant Fund: 2%

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 infeasible. 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.