

KANSAS RACING AND GAMING COMMISSION

AGENCY OVERVIEW
TESTIMONY PRESENTED TO
THE SENATE FEDERAL AND STATE AFFAIRS COMMITTEE

January 15, 2013

By

Richard Petersen-Klein, Executive Director

The Kansas Racing and Gaming Commission (KRGK) is the agency empowered by the Kansas Expanded Lottery Act (KELA) and the Kansas Parimutuel Racing Act to regulate expanded gaming and pari-mutuel wagering in Kansas. The Commission consists of five members appointed by the Governor and confirmed by the Senate for four year terms. The KRGK meets monthly to address regulatory matters primarily related to casino-style gaming in Kansas as pari-mutuel wagering activity remains dormant with the last racetrack closing in 2008. The members of the Commission presently consist of:

Jay T. Shadwick, Overland Park, Chair
Timothy A. Shultz, Topeka, Vice-Chair
R. Eileen King, Manhattan, Secretary
Dennis McKinney, Greensburg
David H. Moses, Wichita

The day-to-day operations of the agency are administered by an executive director and staff. The KRGK was approved for 74 FTE staff for fiscal year (FY) 2013 and has submitted a revised FY 2013 budget for 70.5 FTE. The reduction is primarily the result of 3 FTE positions being unfilled for an extended period of time indicating that existing FTE positions are sufficient to properly perform agency functions. These staffing levels appear to be adequate for the future based upon current expected activity under KELA only. Executive staff includes:

Richard Petersen-Klein, Executive Director
Brandi White, Interim Director of Administration, Finance and Audit
Don Brownlee, Director of Security and Licensing
Bill Smith, Director of Information Technology and Electronic Security
Judith A. Taylor, General Counsel

The KRGK is a fee-funded agency with operations funded by the lottery gaming facility managers that are under contract with the Kansas Lottery and vendors who pay for their licensing costs. The Commission does not receive any state general funds. The agency's FY 2013 revised budget is \$5.9 million from expanded lottery gaming funds, excluding the State Gaming Agency's budget, which is consolidated with the KRGK's budget for processing and approval only. The KRGK's revised budget is an increase of \$472,000 from the approved FY 2013 budget reflecting primarily a reduction in shrinkage. The FY 2014 budget is expected to be unchanged from FY 2013 budget levels based upon expected activity under KELA only.

The KRGC's primary mission is to ensure that state-owned casino-style gaming and pari-mutuel racetrack wagering is conducted with integrity. As a regulatory agency, our chief mission is to seek compliance. The agency's regulatory duties include licensing, security, audit, electronic security, and responsible gambling.

The KRGC issues licenses for lottery gaming facility managers and their employees, and gaming and non-gaming suppliers and their employees. The KRGC also performs background investigations on KRGC employees, both pre-hire and every two years post-hire, and lottery gaming facility directors, key employees and greater-than-.5-percent owners. The agency received and processed more than 2,200 casino-related background applications, and nine new KRGC employee applications, in calendar year (CY) 2012. This represents a decrease from the more than 2,800 applications received in CY 2011, as the lottery gaming facilities completed their openings. Approximately 1,700 background applications were received from individuals seeking licensing for the first time in Kansas, a decrease from approximately 2,500 received in CY 2011 when two of the three lottery gaming facilities were opening. Of the total background applications 363 were from individuals seeking license renewal after the initial two-year license period expired, an increase from 260 in CY 2011. The agency issued 3,700 licenses in CY 2012, including temporary, permanent and renewal permits, both individual and corporate, an increase from 2,700 in CY 2011. Temporary permits are issued following electronic database verification that no criminal or credit history exists that could disqualify the applicant. Before submitting applicants to the Commission for permanent license approval, the agency completes the background process. The KRGC is presently processing 1,386 background applications where temporary permits have been issued, an increase from 1,000 in CY 2011, which reflects the recent expansion of the Kansas Star Casino's lottery gaming enterprise.

In addition to performing background investigations, the agency's on-site security staff monitors casino operations, and casino employee and patron activity for regulatory compliance in order to maintain the public's confidence in the integrity of gaming in Kansas. The on-site KRGC security staff acts as support for the casino's security personnel, and as a liaison between the casino and local law enforcement. In CY 2012, KRGC enforcement agents in Dodge City, Mulvane and Kansas City processed 94 criminal offense reports for such offenses as stolen vouchers and personal belongings, counterfeit bills and checks, manipulation of slot machines, cheating, trespass and others. This was an increase from 35 in CY 2011 and reflects the opening of two new lottery gaming facilities. KRGC agents processed 380 incident reports related to possible regulatory violations, an increase from 42 in CY 2011, which again reflects the increase in the number of lottery gaming facilities. In addition, the on-site KRGC staff receives numerous calls each week related to notifications required by regulation, requests for assistance and information, regulatory permissions, slot machine inspections, equipment malfunctions and other matters.

The agency's electronic security staff work with gaming machine manufacturers and suppliers to ensure the gaming devices and their supporting systems are programmed and configured to operate in accordance with state law and KRGC regulations. The KRGC requires that all electronic gaming devices are tested by an independent testing laboratory approved by the KRGC to ensure that all electronic gaming devices comply with state law and KRGC specifications. In CY 2012, the Commission approved over 2,200 electronic gaming components, a decrease from 2,600 in CY 2011, and revoked 135 electronic gaming components, an increase from 36 in CY 2011. The agency's electronic security, audit, on-site law enforcement and other staff tested and certified 8,384 slot machines in CY 2012 related to

the opening of the Hollywood Casino at Kansas Speedway in February 2012, and the expansions of the Boot Hill and Kansas Star Casinos in September and December 2012, respectively. The approval of electronic gaming components and the certification of slot machines is an ongoing process as lottery gaming facility managers change and update slot machines and other electronic gaming devices in response to changing consumer preferences.

The agency's audit, security, and responsible gambling staff completed the review of the Hollywood Casino's internal control plans covering all aspects of casino operations including, among others, accounting, slot machines, table games, security, surveillance, and responsible gambling in CY 2012. The audit, security and responsible gambling staff received 157 internal control amendment requests in CY 2012 and approved 138 that improved or clarified operating procedures related to the protection of state-owned assets. This is an increase from 80 approved internal control amendments in CY 2011. The audit staff also conducted 12 audits of casino internal controls, 31 reviews of monthly financial reports, 4 reviews of audited financial statements, and 66 reviews of various statistical reports. The reviews and audits of casino operations and monthly financial reporting has increased with the opening of the Kansas Star and Hollywood Casinos and will continue to be an important function in maintaining the integrity of gaming in Kansas.

In addition to reviewing the lottery gaming facility manager's responsible gambling plan for regulatory compliance, the agency's responsible gambling officer monitors lottery gaming facility manager's responsible gambling employee training and implementation on a regular basis. The responsible gambling officer administers and maintains the voluntary exclusion program, which at the end of CY 2012 consisted of 331 individuals, an increase from 60 individuals at the end of CY 2011.

The KRGC acts as the state's coordinating agency for most questions and complaints regarding illegal gambling of all types. In CY 2012, the agency received 244 illegal gambling inquiries and complaints, which was consistent with CY 2011. The agency continues to follow up on 63 of the complaints received in CY 2012, a decrease from 200 at the end of CY 2011. The KRGC first uses education as a means of obtaining voluntary compliance related to reported illegal gambling activity. When education fails, the KRGC works with local law enforcement to verify the nature of the activity, and if the activity is determined to be illegal gaming and the local authorities seek a remedy, the KRGC provides support to local authorities for the seizure of illegal gaming devices and/or the prosecution of the illegal gaming activity by providing case preparation assistance and expert testimony. In CY 2012, the KRGC provided assistance to thirteen jurisdictions to seize twenty-nine illegal gambling devices and close two commercial poker rooms. Nevertheless, the limited resources of both state and local authorities and higher priority matters reduce the number of cases local authorities are able to pursue and/or prosecute. Under current state law, the KRGC must rely on local authorities to bring criminal actions.

Except for state sanctioned gambling (i.e. lottery, expanded lottery, pari-mutuel wagering, bingo and tribal gaming) all other forms of gambling violate the Kansas Constitution and the Kansas criminal code. The KRGC uses the criminal code to address illegal gambling activity in Kansas, assisting local law enforcement authorities and answering questions from the community regarding the legality of planned events.

The pari-mutuel racetracks in Kansas ceased operations in 2008. Since that time all pari-mutuel wagering licenses have expired and no renewal applications have been filed with the KRGC.

Despite the closing of all racetracks, the KRGC continues to register horses for the Kansas-bred program in anticipation of racetracks opening again. Registration of Kansas-bred horses has continued at the request of the horse-racing community.