

April 8, 2013

The Honorable Ralph Ostmeyer, Chairperson  
Senate Committee on Federal and State Affairs  
Statehouse, Room 136-E  
Topeka, Kansas 66612

Dear Senator Ostmeyer:

**SUBJECT:** Fiscal Note for SB 244 by Senate Committee on Federal and State Affairs

In accordance with KSA 75-3715a, the following fiscal note concerning SB 244 is respectfully submitted to your committee.

SB 244 would amend the state's Expanded Lottery Act. The bill would change the distribution of net electronic gaming machine revenue from racetrack gaming facilities. The bill would increase the amount of revenue distributed to racetrack gaming facility managers from 25.0 percent to 62.0 percent in the first and second years of operation and decrease to 60.0 percent in the third year and all future years of operation. The Live Horse Racing Purse Supplement Fund would increase from 7.0 percent to 10.0 percent in the first and second years of operation and increase to 12.0 percent in third year and all future years of operation. To balance out these increases, a corresponding reduction in revenues is in the bill. The state's share in the Expanded Lottery Act Revenues Fund (ELARF) would be reduced from 40.0 to 22.0 percent; the 7.0 percent share that is distributed to the Live Greyhound Racing Purse Supplement Fund is eliminated; and the 15.0 percent share of gaming revenues that is to be used for gaming expenses of the racetrack gaming facility manager is eliminated. Under current law, the 15.0 percent share of revenues can be used for any gaming expenses, subject to the agreement between the Kansas Lottery and the facility manager. The bill would not change the distribution of revenue credited to cities and counties where gaming facilities are located (3.0 percent), Problem Gambling and Addictions Grant Fund (2.0 percent), or the Kansas Horse Fair Racing Benefit Fund (1.0 percent). The bill would eliminate the possibility of an entity other than a parimutuel licensee to pay for the parimutuel licensee's expenses related to electronic gaming machines.

SB 244 would not require additional staffing or expenditures by the Kansas Racing and Gaming Commission, the Kansas Lottery, or any other state agency unless a contract with a racetrack gaming facility manager is approved by the Kansas Lottery and a background investigation is approved by the Kansas Racing and Gaming Commission. Racetracks would first be required to obtain a parimutuel license from the Kansas Racing and Gaming Commission before they would be able to negotiate with the Kansas Lottery for a contract to operate electronic gaming machines.

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Page 2—SB 244

The proposed changes to the distribution of gaming facility revenue from electronic gaming machines could provide an incentive for the Camptown Greyhound Park in Frontenac or the Woodlands racetrack in Kansas City, Kansas to negotiate a contract with the Kansas Lottery in order to reopen these facilities with electronic gaming machines.

The Kansas Lottery indicates that it would need to hire between two and three new employees for a new gaming facility that would open as a result of this bill. However, without knowing the size of the proposed facility and when the facility would open, the Kansas Lottery is unable to make a precise estimate of its gaming related expenses. The Kansas Lottery indicates that when it has negotiated contracts with gaming facility managers, it has required that all of its gaming related expenses be reimbursed by the manager. Direct gaming expenses are billed directly to the specific gaming facility manager and indirect expenses are prorated to all managers.

The Kansas Racing and Gaming Commission indicates it would need approximately \$1.8 million and 21.00 FTE positions for each parimutuel racetrack that reopens in FY 2014 to regulate both the racing and gaming activities. Start-up costs of approximately \$450,000 per facility would also be needed for expenses, such as background investigations, licensing equipment, software licenses, computer equipment, furniture and supplies, and other expenses that would be associated with reopening each facility. Funding for regulating racing activities has primarily come from the transfer of parimutuel tax receipts to the State Racing Fund. The appropriations bill each year provides the authority for the Kansas Racing and Gaming Commission to bill each facility for all costs related to regulating racing activity.

The Department for Aging and Disability Services indicates that additional gaming facilities would likely increase demand for services provided by its Problem Gambling Program. The Department indicates that the amount of additional spending would be dependent on the number of additional gaming facilities and would be proportional to current spending levels for problem gambling and addiction services.

A reliable estimate of the revenue that might be generated as a result of SB 244 cannot be made without a detailed market study, which would include an estimate as to when the facility would be operational, the location of the facility, and the size of the gaming facility. Any fiscal effect associated with SB 244 is not reflected in *The FY 2014 Governor's Budget Report*.

Sincerely,



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

cc: Brandi White, KRGC  
Stephen Durrell, Lottery  
Dave Halferty, KDADS