KANSAS LOTTERY

Terry P. Presta
Executive Director

Sam Brownback
Governor

Testimony Before
The House Committee on Commerce, Labor and Economic Development
House Bill 2171

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Kansas Lottery

Mr. Chairman and Members of the Committee:

Thank you for your consideration of House Bill 2171, known as the Kansas Lottery Modernization Bill. HB 2171 proposes four minor changes to the Kansas Lottery Act regarding the selling and advertising of traditional lottery products. This bill does not "expand" the reach of the Kansas Lottery, but simply allows the Lottery to implement industry best practices and further modernize its operations to become more efficient and effective in today's business environment. Furthermore, these changes have nothing to do with the Kansas Expanded Lottery Act and that act remains untouched by these requested changes.

Allow Kansas Lottery to be a retailer

The bill amends K.S.A. 74-8718(a)(2) to clarify that the Kansas Lottery is a lottery retailer and is able to sell its own products. As part of the Lottery's efforts to support state, regional and local events as well as promote its products and brand, the Lottery sponsors and participates in a number of events across the state including the Wichita RiverFest, races at Kansas Speedway, Country Stampede in Manhattan, the 3i Show in Dodge City and the Park City Chill.

Currently, to sell Lottery products at the events, the Lottery must identify a willing lottery retailer to sell tickets through, entailing a detailed, overly burdensome accounting process for tracking the tickets sold and returned and then paying the retailer the commission earned from the sales. The Lottery's ability to sell its own products will eliminate a great deal of unnecessary paperwork and reduce staff time by streamlining the accounting and ticket tracking process.

In CY 2014, the Lottery sponsored or participated in 17 events and promotions across the state with sales totaling $105,718.

Prohibit purchases by a minor

The Lottery also proposes to make it illegal for a person under the age of 18 to "purchase, or attempt to purchase" Kansas Lottery products.

Under current law, it is only illegal for a retailer to sell a Lottery ticket to someone less than 18 years of age. While minors purchasing lottery products is not, nor has it historically been a problem, the Kansas Lottery and its retailers take the issue of underage gaming very seriously and want to try to prevent that action when possible. This change along with a robust education campaign targeted at minors, their parents and clerks will help to continue to deter minors from purchasing lottery products.

Similar to a speeding ticket, it would be a fineable offense of up to $500, or require up to 40 hours of community service, but there would be neither jail time nor a criminal record. This change does not lessen the responsibilities of lottery retailers not to sell lottery products to minors.

Allow the Lottery to advertise at amateur athletic and sporting events.
The bill updates K.S.A 74-8704(b) which currently prohibits the on-site advertising and promotion of Lottery products at all amateur athletic and sporting events including those held at universities and colleges under the jurisdiction of the Kansas Board of Regents. The bill clarifies that the prohibition applies specifically to sporting events in the state where the majority of participants are under the age of 18. Although we receive many requests for sponsorships, the Lottery is very careful not to promote its products at or sponsor any event where the majority of participants are minors. This change ratifies this practice into law.

This change also allows the Lottery to get the best return on its advertising investment at sporting events held at Regents schools and other colleges. Currently, the Lottery is able to use traditional lottery revenues to sponsor men's and women's teams and coaches' shows through advertising on radio and television broadcasts as well as on websites. This bill allows the Lottery to additionally promote its products and branding on electronic billboards and other signage displayed in stadiums and arenas as well as sponsor promotions and events held in these facilities. We are regularly requested by these institutions to advertise on-site, but cannot because of this prohibition.

Similar to what is allowed at dozens of other universities including the Big XII's Texas and West Virginia as well as neighboring Nebraska and Missouri, advertising on-site will tremendously increase the overall advertising impressions with lottery players attending the game or watching it on television. It is estimated that basketball TV impressions over the course of a season in the Kansas City, Wichita and Topeka markets alone are 1,444,420 for Kansas State University and 1,946,120 for the University of Kansas.

Allow the Lottery to invest in and use electronic product dispensers.
The Lottery proposes amending K.S.A. 74-8702(q) to allow the use of electronic dispensers in the state if the Lottery decides they are feasible and secure. As an industry best practices standard, 38 U.S. lotteries including Missouri, Oklahoma and Colorado already use electronic dispensers to deliver and sell their lottery products.

The Lottery is frequently asked by lottery retailers if such dispensers are available in Kansas because they want a better way to track inventory and sales as well as reduce customer wait times and specifically labor costs. Lottery retailers who have locations in other states where electronic dispensers are used report their sales increased by 30% to 50% and have cut their lottery labor costs in half.

Once fully implemented, estimates project the use of electronic dispensers in Kansas would increase sales by $25 to $30 million annually, increase retailer commissions by $1.3 to $1.5 million annually, and increase transfers to the state by $8 to $10 million annually.

Again, thank you Chairman Hutton and Committee Members for consideration of House Bill 2171.

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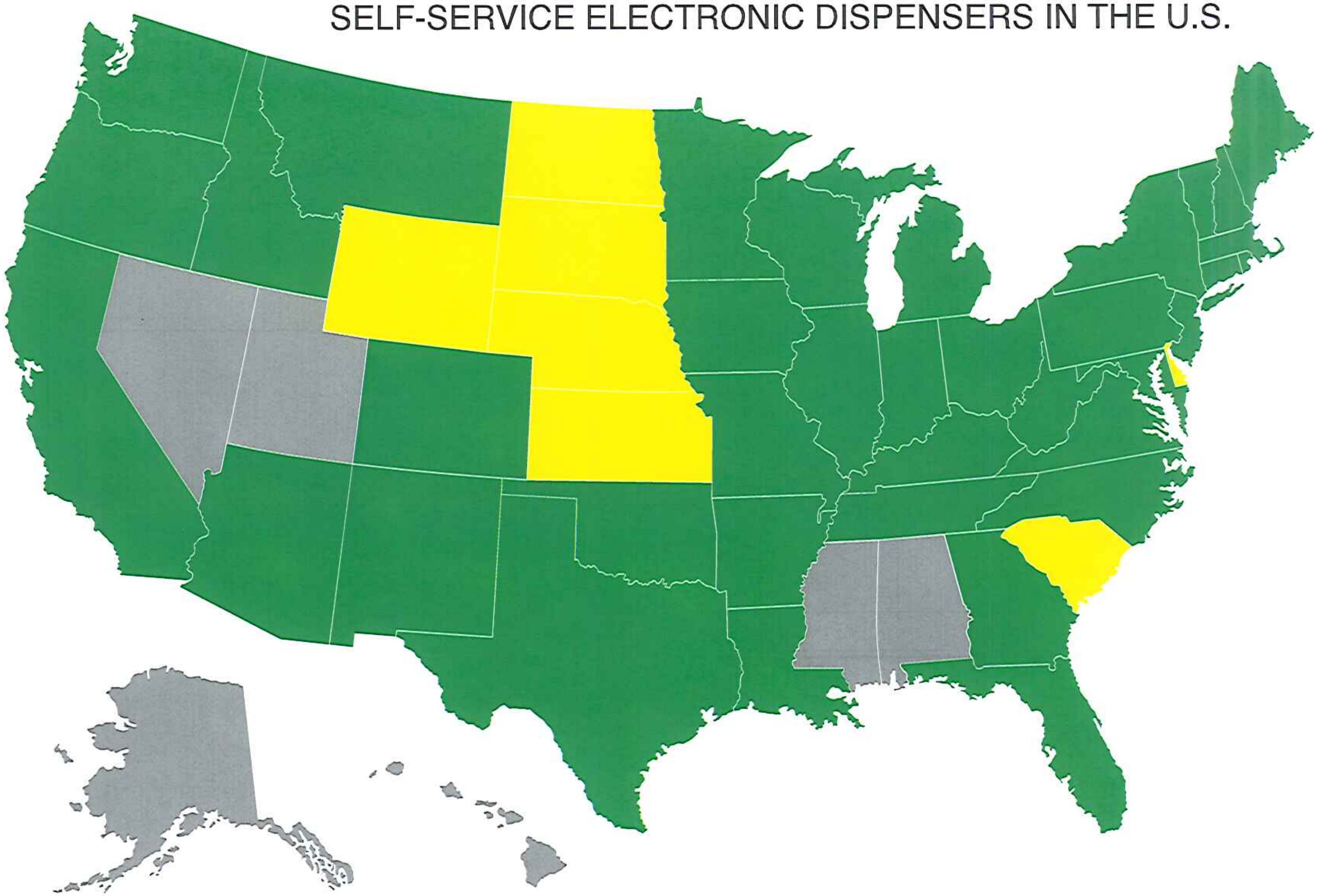
SELF-SERVICE ELECTRONIC DISPENSERS IN THE U.S.



States with Self-Service Electronic Dispensers
States with No Self-Service Electronic Dispensers (DE, KS, ND, NE, SC, SD, WY)
Non-Lottery States (AK, AL, HI, MS, NV, UT)

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Kansas Lottery – At a glance

The mission of the Kansas Lottery is to produce the maximum amount of revenue possible for the State of Kansas while ensuring the integrity of all games. The Lottery's "Why?" is to provide fun and exciting entertainment that lets its players dream about what they would do if they won.

Six programs defined in the budget:

- Sales (25)
- Security (8)
- Marketing (8)
- Expanded Gaming (11)
- Information Tech. (9)
- Administration (27)

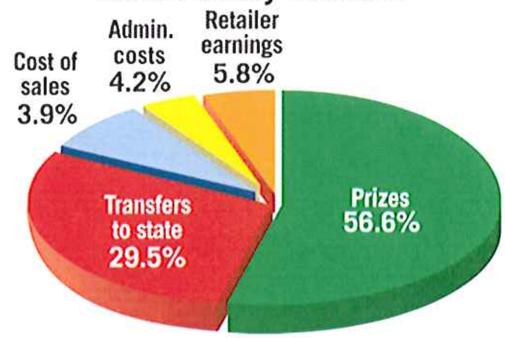
The Lottery is led by its Executive Director, with a five-person advisory commission whose membership is appointed by the Governor.

Traditional Lottery

- Sales, Retail Services and Marketing Departments, supported by Security, IT and Administration
- Traditional Lottery oversees the development, marketing, delivery and sale of instant scratch and pull tab games as well as online/draw games like Powerball, Mega Millions and Keno.
- More than 1800 retailers sell lottery products in Kansas
- Transferred $74.3 million to the State in FY 2014

Total Traditional Lottery sales and transfers since 1987

- Net sales of $4.9 billion
- More than $2.6 billion in game prizes
- More than 75 millionaires created
- Retailer commissions of $278 million
- Transfers to the State of $1.48 billion



*FY 2014

Expanded Lottery

- Expanded Gaming Department, supported by Security, Information Technology and Administration
- The Lottery has contracts with managers to oversee the day-to-day operations of casinos in three gaming zones: Kansas Star Casino, Hollywood Casino at Kansas Speedway and Boot Hill Casino & Resort
- Application process is currently underway for a casino manager in the Southeast Gaming Zone
- There are no racetrack gaming facilities
- Transferred $78 Million to the State in FY 2014

Total Casino Revenue Fund Transfers

- Cumulative to State through FY14 - $214.2 million
- Cumulative to PGAGF through FY14 - $19.4 million
- Cumulative to City and County Recipients through FY14 - $29.2 million

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