



Terry P. Presta
Executive Director

Sam Brownback
Governor

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

**Sherriene Jones-Sontag, Deputy Executive Director
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. When HB 2171 was introduced during the 2015 Legislative Session, it proposed four minor changes to the Kansas Lottery Act regarding the selling and advertising of traditional lottery products.

- Allow the Kansas Lottery to be a retailer
- Allow the Lottery to advertise at amateur athletic and sporting events
- Prohibit lottery purchases by a minor
- Allow the Lottery to invest in and use electronic product dispensers

The 2015 Legislature included two of the four measures in Senate Substitute for House Bill 2155 which then became law. The Lottery can now sell its own products and advertise at university sporting events. Rather than prohibiting lottery purchases by minors, the Legislature instead prohibited minors from cashing winning lottery tickets.

The Lottery proposes amending K.S.A. 74-8702(q) to allow the use of electronic dispensers in the state. As an industry best practices standard, 38 U.S. lotteries including competitive neighbors 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, conservative estimates project 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.

The Efficiency Review recently completed by Alvarez & Marsal recommended the Lottery invest in and install electronic dispensers, estimating it would increase the state transfer by \$6.147 million in FY 2017 and then by \$9.544 million in subsequent fiscal years.

In closing, this bill does not "expand" the reach of the Kansas Lottery, but simply allows the Lottery to continue implementing 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.

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



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

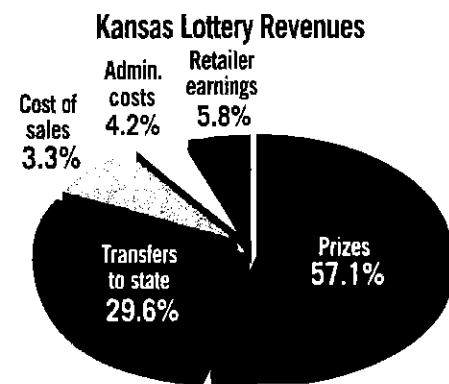
The Lottery is led by its Executive Director, with a five-person advisory commission appointed by the governor.

Traditional Lottery

- Products include instant scratch/pull tab games and draw/lotto games
- Includes Sales, Retail Services and Marketing Depts., 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.
- Approximately 1800 Kansas retailers sell lottery products
- Transferred \$75.02 million to the State in FY 2015

Total Traditional Lottery sales and transfers since 1987:

- Net sales of \$5.15 billion
- More than \$2.8 billion in game prizes
- More than 80 millionaires created
- Retailer commissions of \$293 million
- Transfers to the State of \$1.5 billion



**FY 2015 Traditional Lottery*

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
- Awarded contract for a casino manager in the Southeast Gaming Zone is currently in litigation
- There are no racetrack gaming facilities
- Transferred \$80.3 Million to the State in FY 2015

Total Casino Revenue Fund Transfers since 2009:

- Cumulative to State through FY15 - \$294.5 million
- Cumulative to Problem Gambling and Addictions Grant Fund through FY14 - \$26.7 million
- Cumulative to City and County Recipients through FY14 - \$40.1 million

Kansas Lottery Initiatives to Educate Retailers

Regarding Minors and Lottery Products

NOTICE

**BE RESPONSIBLE AND DO NOT SELL
LOTTERY TICKETS TO A MINOR.**

**YOU COULD BE CHARGED
WITH A CRIME!**

KANSAS STATUTE 74-8718
It is unlawful to sell a lottery ticket to any person,
knowing such person to be under 18 years of age.

KANSAS LOTTERY

February 2015

Letter from Executive Director Presta and poster mailed to all Kansas Lottery retailers reminding them that under K.S.A. 74-8718 it is unlawful for a retailer to sell a lottery ticket to any person, knowing such person to be under 18 years of age.

KNOW THE LAW

**DO NOT SELL A LOTTERY TICKET TO A MINOR!
DO NOT PAY A LOTTERY PRIZE TO A MINOR!**

Kansas Lottery games are for adults only. Minors may not purchase tickets or claim lottery prizes.

KANSAS STATUTE 74-8718
It is unlawful to sell a lottery ticket to any person, knowing such person to be under 18 years of age.



KANSAS STATUTE 74-8720
No person under 18 years of age shall be eligible to claim a lottery prize.

REMARKS:
If you sell a lottery ticket to a minor you could be charged with a crime.
It is your legal duty to refuse to cash a prize presented by a minor.
If you are unsure it is wiser to 18 or older, ask for identification.

The Kansas Lottery takes seriously the issue of minors and lottery tickets, and we encourage you to do the same.

KANSAS LOTTERY

June 2015

Lottery District Managers distribute a poster to Kansas Lottery Retailers in advance of a new law which will take effect July 1, 2015. K.S.A. 74-8720 states that "no person under 18 years of age shall be eligible to claim a lottery prize."

KANSAS Retailers!

Summer 2015

Finding Retail Solutions

2

Director's Club Event

3

Director's Club Honorees

4

Director's Club Honorees

5

New Employee

6

Winning Retailers

7

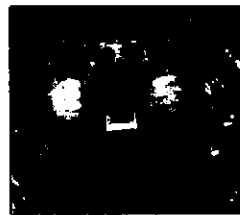
Lottery Crossword

8

Retailers Give Thumbs Up to Director's Club

In recognition of our retailers who work extra hard to grow their lottery sales, the Kansas Lottery had its first-ever Director's Club recognition event April 17 at Kansas Star Casino in Mulvane. It is accurate to say that "a good time was had by all." The event included a dinner in the hotel adjacent to the casino, dinner and reception in the Kansas Star Event Center, live slot play, presentation of Director's Club certificates, fun and games with Lottery staff (including an opportunity to step inside the popular prize machines, drawings, \$100 in free instant tickets for each retailer and vendor displays).

Director's Club retailers are: Top 5 in the categories of Convenience Store, Grocery Store, and Social Environment, plus a Director's Choice Award recognizing top sales in the state. The Top 20 Most Improved Retailers are also part of the Director's Club. See the winners on pages 4-5 of this publication.



Patrick Kavanaugh of California Avenue in Topeka gives "Thumbs up" to the Director's Club Recognition Event at Kansas Star Casino.

IMPORTANT - PLEASE READ!

A bill passed by the 2015 Kansas Legislature and signed by Governor Brownback makes it illegal for a minor to cash a winning lottery ticket. This new law goes into effect July 1 and applies to minors who would try to claim a winning ticket at any lottery outlet, as well as at Lottery headquarters in Topeka.

This new legislation is in addition to the law already in place which prohibits retailers from knowingly selling lottery products to anyone under the age of 18. In fact it is a CRIME. As a Lottery retailer, if you think a player trying to purchase a lottery ticket or cash a winning lottery ticket looks like he or she is under the age of 18, ask for identification. You are legally prohibited from selling a lottery ticket to a minor, and it is also your legal duty to refuse to cash a ticket presented by a minor.

YOU MUST BE

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KANSAS LOTTERY

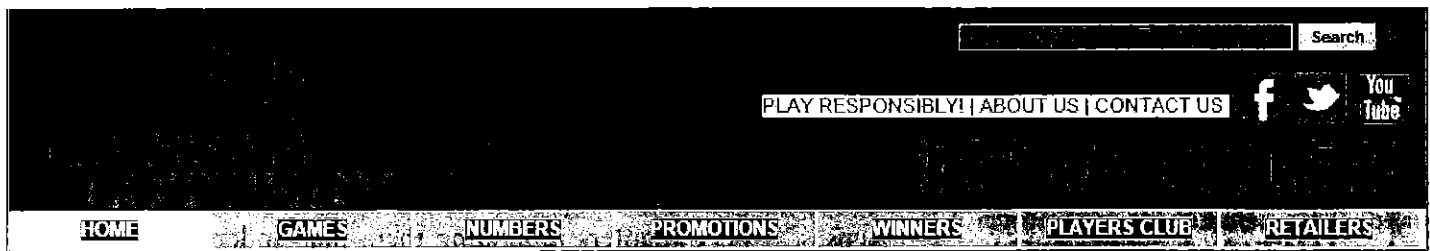
www.kslottery.com

June 2015

A front-page article discussing the new bill passed by the 2015 Legislature that makes it illegal for minors to cash a winning ticket is included in the Summer 2015 issue of *Kansas Retailers*, a newsletter which is disseminated to all retail stores and corporate offices that sell lottery products.

July 2015

Added language to the "Frequently Asked Questions" section of the Kansas Lottery website about the new minor prohibiting minors from claiming a lottery prize in Kansas.



Is there an age restriction for purchasing a lottery ticket?

Yes. A Kansas Lottery ticket may not be sold to any person under 18 years of age, and persons under the age of 18 are prohibited from claiming a lottery prize in Kansas.

Terminal Message is sent to all lottery terminals in the state highlighting new legislation. Monthly repeat messages to be sent monthly from August -December 2015 and biannually thereafter.

September 2015



MAIL MESSAGE

Please send the following Mail Message to all
(ALL Mail Messages are limited to 39 lines a

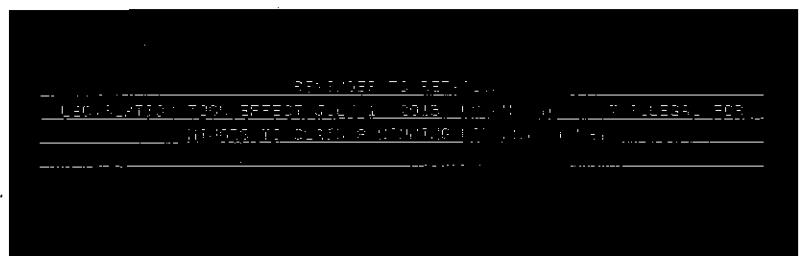
Message Text:
RETAILER REMINDER:

NEW LEGISLATION TAKES
EFFECT JULY 1, 2015, WHICH
MAKES IT ILLEGAL FOR
MINORS TO CLAIM A
WINNING LOTTERY TICKET.

AS A LOTTERY RETAILER, IF
YOU THINK A PLAYER TRYING
TO PURCHASE A LOTTERY
TICKET OR CASH A WINNING
LOTTERY TICKET LOOKS LIKE
HE OR SHE IS UNDER THE
AGE OF 18, ASK FOR
IDENTIFICATION.

YOU ARE LEGALLY PROHIBITED
FROM A SELLING A LOTTERY
TICKET TO A MINOR, AND IT
IS ALSO YOUR LEGAL DUTY TO
REFUSE TO CASH A WINNING
TICKET.

Message about new minors
legislation is included in
"message area" on ticket order
packing slips.



August 2015

Kansas Lottery terminal vendor IGT adds a message across the top of a new sticker that will be affixed to all terminals reminding clerks that it is unlawful to sell a lottery ticket to a minor or pay a lottery prize to a minor.

IT'S THE LAW - DON'T SELL A TICKET TO A MINOR OR PAY A PRIZE TO A MINOR.



For INSTANT TICKETS Call:
1-888-892-8589
For LOTTERY QUESTIONS Call:
1-800-322-5688

For terminal supplies,
service, and repairs
Call IGT:
1-800-658-1920



Lottery

Acknowledgements

This report was made possible thanks to the knowledge, time, and advice of many individuals within the Kansas Lottery. Alvarez & Marsal would like to thank everyone who contributed to this endeavor, especially:

- Sherriene L. Jones-Sontag, Deputy Executive Director

IMPLEMENT ITVM

Recommendation #1 – Allow the Lottery to use Instant Ticket Vending Machines in Kansas

The state should allow the Lottery to invest in and use electronic product dispensers.

Background and Findings

- The Kansas Lottery sales exceeded \$250 million and transferred more than \$75 million to the state in FY15.
- The Kansas Lottery has approximately 1,800 vendors across the state.
- Forty four states have a lottery, and 38 of those states use self-service electronic ticket dispensers.
- The State of Washington has two vendors that provide 1,494 machines, which generate \$2,642 to \$2,645 in sales per machine per week.
- Higher traffic locations such as grocery stores generate \$3,390 to \$4,191 in sales per machine per week.

- The primary objection has been related to concerns about minors purchasing scratch off lottery tickets without supervision.
- The proposal is to use limited implementation in higher performing stores, using highly visible locations where store managers and clerks can monitor the machines.

Recommendation #1 - (dollars in 000's)

<u>FY17</u>	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>	<u>FY21</u>
\$6,147	\$9,554	\$9,554	\$9,554	\$9,554

Key Assumptions

- There is an estimated increase of \$30 million in annual lottery sales as a result of the ITVMs
- There is an estimated increase from \$8 million to \$9 million in annual funds that would transfer to the general fund.
- The retailer profits would increase from \$1.3 to \$1.5 million.
- Corporate Income tax rates of 0.3 percent were applied to net profit.
- Lottery retailers who have locations in other states, where electronic dispensers are available report their sales increased from 30% to 50% and

have cut their lottery labor costs in half.

- Kansas is assumed to be able to achieve 50 percent of Washington State's point of sale efficiency in 2017 and 75 percent of Washington State's point of sale efficiency in 2018.
- The lottery is assumed to be able to transfer 25 percent to 30 percent of the increased lottery ticket sales to the state.
- The administration of the program would be minimal.

Critical Steps to Implement

The critical steps necessary to complete the implementation of the Lottery recommendation include:

- Revise state statutes to allow for the use of ITVMs.
- Install dispensers in 325 top performing higher traffic retailers .