

Approved: 3/22/93
Date

MINUTES OF THE HOUSE COMMITTEE ON FEDERAL AND STATE AFFAIRS.

The meeting was called to order by Chairperson Clyde Graeber at 1:30 p.m. on March 17, 1993 in Room 526-S of the Capitol.

All members were present except:

Committee staff present: Mary Galligan, Legislative Research Department
Lynne Holt, Legislative Research Department
Mary Ann Torrence, Revisor of Statutes
June Evans, Committee Secretary

Conferees appearing before the committee: Ralph W. E. Decker, Executive Director, Kansas Lottery
R. E. "Tuck" Duncan, Kansas Wine & Spirits Wholesalers Assn., Inc.

Others attending: See attached list

The Chairperson opened the hearing on SB 111, a bill that would reduce the minimum amount of revenue required to be transferred from the state lottery to the State Gaming Revenue Fund (SGRF) from 30 percent to 25 percent of monthly net sales revenue of instant and pull-tab lottery tickets.

Ralph W. E. Decker, Executive Director, Kansas Lottery, testified on SB 111 requesting that 25 percent across the board be considered rather than have some games at 25 percent and some games at 30 percent. Mr. Decker stated 25 percent would give more relief to players and retailers. (See Attachment #1)

The Chairperson closed the hearing on SB 111.

The Chairperson opened the hearing on SB 322.

R. E. "Tuck" Duncan, Kansas Wine & Spirits Wholesalers Association, testified in support of SB 322, stating this would all the sale of any size package approved by the Alcoholic Beverage Control, which could include the 50ml container. The 50ml container has multiple uses in the travel and hospitality industry. Kansas may have the opportunity to develop a commercial airline business by restocking, and many private aircraft are serviced in Kansas and would be restocked with these items. Bus charters that originate in Kansas, particularly those headed to Colorado, acquire these containers at the stores in Colorado.

There is also a repealer item in SB 322 which amends the tax provision to consolidate all reference to taxes. An identification stamp or crown on all cereal malt beverage not be required - it is not done now and it makes no sense to do this. The identification stamp or crown is not required on beer or wine. (See Attachment #2)

The Chairperson closed the hearing on SB 322.

Representative Empson moved and Representative Gilbert seconded that the minutes of March 11 and 15 be approved. The motion carried.

The Chairperson stated SB 181 would be heard tomorrow.

The next meeting is scheduled for March 18, 1993.

Date: 3/17/93

FEDERAL and STATE AFFAIRS COMMITTEE

NAME	ORGANIZATION	ADDRESS
Ralph Decker	Kansas Lottery	Topeka
Jim Fordaro	" "	"
Deieth L. Sutton	Kansas Lottery	Topeka
Robert A. Engle	ABE	Topeka
Heidi L. Sutton	Barber & Assoc.	Topeka
DANA NELSON	KS THAROMIN Assoc	TOPEKA
Jim Conant	ABC	Top.
Jack D. Khan	KWSWA	Topeka
Neal Whitaker	KBWA	Topeka
Ken Behr	Anderson Busch	"
Jim McBride	ok service	Lincoln
Frances Kastner	KS Food Dealers Assn	Topeka
Thomas B. McDavitt	The Boeing Company	Wichita
Rebecca Rin	KKLDA	Topeka
Stacy Morsard	AP	Topeka
John L. Polterson	K.C. Star	3

Date: 3/17/93

FEDERAL and STATE AFFAIRS COMMITTEE

[illegible]

Joan Finney
Governor



Ralph W. E. Decker
Executive Director

March, 1993

STATE OF THE STATE'S KANSAS LOTTERY:

A Constitutional Amendment authorizing a state lottery was approved by 64% of Kansas voters in November of 1986. During the 1987 Legislative Session, the Kansas Lottery Act was adopted, implementing a lottery in the State of Kansas. The Lottery is in its sixth year of operation and continues to provide its players with a variety of products which offer prize returns as well as revenues to the State of Kansas.

Thirty percent of Lottery receipts are transferred to the State Gaming Revenues fund. Moneys from the State Gaming Revenues fund are used to finance projects in Corrections and Economic Development. Current law provides that in FY 1993, 90% of Gaming Revenues funds must be used in projects funded by the Economic Development Initiatives fund with the remaining 10% to be used to finance Corrections projects.

FLSA
3-17-93
Atch #6

The first eight months of FY 1993 generated total net sales revenues of \$68,343,621. Transfers to the State Gaming Revenues fund for the seven-month period totaled \$22,452,586. This, added to previous transfers in FY 1988, FY 1989, FY 1990, FY 1991 and FY 1992, of \$101,704,677, creates a grand total transferred to the State Gaming Revenue Fund of \$124,157,263.

A total of \$3,328,328 was transferred to the State Gaming Fund based on sales in February, 1993. This was one of the larger monthly transfers since the Kansas Lottery started.

At present, 2,082 retailers are selling Lottery products. Commissions paid to these Kansas retailers since the start-up of the Lottery total \$21,767,696.

During the past five years the Lottery has had a total of 19 audits, ranging from financial to security. The most recent audit completed in the fall of 1992 was very gratifying because there were no errors or omissions noted.

The Kansas Lottery maintains a high level of integrity, accountability and security and we intend for that to continue in the future.

KANSAS LOTTERY

To Date Activity 02/28/93

Net Sales \$414,112,582

FY 88	\$65,804,532
FY 89	68,188,022
FY 90	64,530,640
FY 91	70,206,003
FY 92	77,039,764
FY 93	68,343,621

Retailer Commissions \$21,767,696

FY 88	\$3,618,110
FY 89	3,602,985
FY 90	3,318,244
FY 91	3,657,131
FY 92	4,065,060
FY 93	3,506,166

Game Prizes \$196,739,674

FY 88	\$30,123,006
FY 89	33,755,427
FY 90	28,941,942
FY 91	32,800,224
FY 92	37,063,757
FY 93	34,055,318

Transfers To State \$124,157,263

FY 88 *	\$11,343,321
FY 89	24,500,950
FY 90	19,259,917
FY 91	19,453,470
FY 92	27,147,019
FY 93	22,452,586

* Includes \$2,843,321 Loan & Interest Payback

FY 92 & FY 93 UNAUDITED

TARGETS ATTAINED BY YOUR KANSAS LOTTERY:

Staffing levels reduced by 10%

Administrative costs reduced from 14.8 to 10.06%

Computer capabilities expanded to allow 10 instant games instead of the previous limit of 3.

Organizational chart realigned to increase efficiency.

FY 1991 - exceeded sales projections for first time.

FY 1992 - followed with a record year of sales.

Announced new theme: "Somebody's Always Winning."

Introduced daily lotto game: Pick 3.

Commenced live TV Cash Lotto drawings.

Redesigned Keno to Club Keno.

. . . and we're not ready to rest after all of that.

The Kansas Lottery is not a typical state agency -- your Lottery exists as a self funded, profit-making organization, WITH THAT PROFIT GOING TO THE STATE OF KANSAS!

THE FUTURE OF THE LOTTERY

- * ONE BUDGET - ability to shift moneys as necessary, where needed (i.e., K.B.I., Kansas Highway Patrol and Adjutant General's office)
- * INSTANT VALIDATION - Cross-redemption
- * BONUS PROGRAM FOR SALES FORCE
- * LOTTERY BECOMES A RETAILER
- * ALLOW NON-MONETARY PRIZES
- * LARGER PRIZE RETURN TO KANSAS' LOTTERY PLAYERS
- * INCENTIVE PROGRAM FOR LOTTERY RETAILERS
- * EXECUTIVE DIRECTOR - made a contract position
- * LOTTERY AS A CORPORATION rather than an agency
- * SUPPORT FROM THE LEGISLATIVE BODY in view of competition arriving in the form of casinos

KANSAS LOTTERY
LISTING OF AUDITS, STUDIES AND REVIEWS
JANUARY 15, 1993

Financial and Compliance Audits (Agency)

FY 1987 - Legislative Division of Post Audit
FY 1988 - Arthur Andersen & Co.
FY 1989 - Arthur Andersen & Co.
FY 1990 - Wendling, Noe, Nelson and Johnson
FY 1991 - Arthur Andersen & Co.
FY 1992 - Berberich Trahan & Co.

Financial and Compliance Audits (Statewide)

FY 1989 - Arthur Andersen & Co.
FY 1990 - Arthur Andersen & Co.
FY 1991 - Arthur Andersen & Co.
FY 1992 - Arthur Andersen & Co.

Special Studies

March 1988 - Ernst & Young
April 1990 - Myers & Stauffer
August 1992 - Grant Thornton

Performance Audits (Various subject matter)

April 1988 - Legislative Division of Post Audit
January 1989 - Legislative Division of Post Audit
February 1990 - Legislative Division of Post Audit

Security Audits

February 1989 - Battelle
February 1990 - Battelle
August 1991 - Battelle

THE SAYING IS YOU GET WHAT YOU PAY FOR . . . AND IF THE KANSAS LOTTERY WERE TO PAY A GREATER PERCENTAGE OF ITS SALES IN PRIZES, THE STATE OF KANSAS WOULD GET MORE IN PROCEEDS.

THIS IS BASED ON FINDINGS IN THE MAJORITY OF U. S. LOTTERIES REGARDLESS OF THE LOTTERY'S POPULATIONS, GEOGRAPHICAL LOCATION, DEMOGRAPHIC MAKE-UP, OR PRODUCT MIX. THERE IS A DIRECT RELATIONSHIP BETWEEN THE PRIZE PAYOUT AND SALES. THE KANSAS LOTTERY HAS FOUND THIS TO BE TRUE FIRST HAND.

INCREASING THE PAYOUT FOR THE KANSAS LOTTERY'S INSTANT GAMES WILL INCREASE THE LOTTERY'S SALES AND THEREBY MAXIMIZE REVENUE TO THE STATE.

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PAYOUTS INCREASED IN FOLLOWING STATES - SALES INCREASED

KENTUCKY

OREGON

MISSOURI

IOWA

MINNESOTA

WISCONSIN

MICHIGAN

NEW YORK

WEST VIRGINIA

COLORADO

VERMONT

NEW HAMPSHIRE

SOUTH DAKOTA

CONNECTICUT

INSTANT GAME SALES

as Improved by Increases in Prize Payout Percentages

Experiences of a few other states:

Massachusetts took their Scratch sales from \$54.32 millions to \$466.92 millions and their net dollars from \$21.78 millions to \$116.75 millions with an increase in payouts from 50% to 65%.

Recently **Colorado** has gone from 56-57% payout to 65% payouts with an increase of some 50% in sales.

Kentucky paid 49-50% originally. They went to 60% and now to 65%+ with an increase in calendar 1992 of 57.2%.

Oregon also pays 65% now and has experienced similar gains, in spite of the addition of Keno and Video Lottery which originally cost them about 39% of their Scratch sales.

West Virginia experienced an increase of 47% when it went from payouts of 53-55% to 60%.

Vermont from 50 to 58 percent--sales increase 60%+--net profit +37%.

Iowa gained 58% in a move from 60 to 65% payouts some time ago.

New York reports that Scratch games sales quadrupled after their prize payout was increased statutorily from 40% to 50% with special prize funds to 55%.

District of Columbia went from 53% to 60% last calendar year with a sales increase of 63.4%.

New Hampshire increased instant ticket payouts about five years ago to the 60 to 65% level. This resulted in an increase in sales of 300%.

In 1988, **Michigan** went from payouts of 48 to 55%. In the succeeding nine months, sales increased 22%. Quote: "Evidence is clear that a further increase in the instant game payout percentage would result in further increases in gross sales."

Minnesota, started with a 50% payout, went to a 55% payout in FY'92 and a 60% payout in FY '93.

Wisconsin started at 50.1 and gradually increased to 60.1% payouts with increased sales quickly increasing over 25% in spite of the fact that new lotteries almost always experience sales downturns after their first few games.

Missouri was originally legislatively prevented from paying out more than 45%. As a result of this restriction, player interest fell, sales dropped and the lottery was facing "bankruptcy". Finally, in August 1988, legislation removed the payout restriction and the lottery increased the payout to 55%. Within one week, sales rose more than 80% (from \$1.06 million to \$1.92 million.) Sales continued to improve while sales net, which had dropped 18% and 12% in the two preceeding years, reversed to increases of 15% in 1989 and 12% in 1990.

The Kansas Lottery

QUESTIONS

The State now gets about \$30,000,000 from the Lottery sales of \$100,000,000. Why should we lower the State share by 5 million dollars?

On Instant tickets alone, an increase of 10% in payouts statistically will produce an increase of approximately 60% or more in sales. This alone would make up the \$5,000,000 at a cost of about two-thirds of that amount. A further increase in payouts would add to the State share.

Other Lottery products would also be expected to show gains through the wider distribution of instant tickets and the consequent introduction of new and lapsed players to our various games.

Would not extra printing costs for instant tickets consume most of the remaining moneys available to the Lottery?

No! Extra tickets costs would be very minimal because of the favorable terms of our recently negotiated printing contract. Prices decrease per thousand tickets as quantities ordered increase. This not only makes extra tickets cost less, but also lowers the price on the quantities now being ordered.

Where else could you expect extra sales and for what reasons?

Other areas, which could lead to increased sales if the Lottery had slightly increased funds available would be:

A slight improvement in retailer commissions and/or incentives for increased performances would unquestionably lead to greater cooperation by the retailers in the form of additional space for in-store advertising materials. Conversely, we may lose some present retailers if nothing is done to improve their financial return from the sale of Lottery products.

Some funds could usefully be applied to change the retailer phone line charge structures in order to provide incentives for superior performances and remove the present regressive line charge structures.

Kansas Lottery Analysis of SB 111

Current Lottery Status:

	<u>Instant</u>	<u>Online</u>	<u>Total</u>
Sales	\$40,000,000	\$60,000,000	\$100,000,000
Payout	\$20,000,000	\$30,000,000	\$ 50,000,000
Gaming Fund	\$12,000,000	\$18,000,000	\$ 30,000,000

Change Gaming fund on Instant to 25%

Lottery would utilize additional 5% to:

- 1) Increase Instant Prize Payout (from 50% to ~52.5%), and
- 2) Increase retailer commissions/awards to promote ticket sales (\$1mm)

With a 2.5% increase in instant prize payout the Lottery would expect to see a resulting 14% increase in instant ticket sales.

	<u>Instant</u>	<u>Online</u>	<u>Total</u>
Sales	\$45,600,000	\$60,000,000	\$105,600,000
Payout	\$23,940,000	\$30,000,000	\$ 53,940,000
Gaming Fund	\$11,400,000	\$18,000,000	\$ 29,400,000

Change Gaming fund on all Lottery products to 25%

Lottery would utilize additional 5% to:

- 1) Increase Instant Prize Payout (from 50% to 60%), and
- 2) Increase retailer commissions/awards to promote ticket sales (\$1mm)

With a 10% increase in instant prize payout the Lottery would expect to see a resulting 60% increase in instant ticket sales.

	<u>Instant</u>	<u>Online</u>	<u>Total</u>
Sales	\$64,000,000	\$60,000,000	\$124,000,000
Payout	\$38,400,000	\$30,000,000	\$ 68,400,000
Gaming Fund	\$16,000,000	\$15,000,000	\$ 31,000,000

Kansas Lottery Analysis of SB 181

Current Lottery Status

# Bingo Establishments as licensed retailers:	32
Calendar Year 1992 Instant Sales:	\$269,000
Calendar Year 1992 Pull-Tab Sales:	\$530,000
Total Calendar Year 1992 Sales	\$799,000
State Gaming Fund Contribution from Sales:	\$239,000

Change Bingo Establishments to non-Lottery games

Bingo establishments would be able to operate instant and pull-tab games with significantly higher payouts than the Lottery and would therefore result in a dramatic increase in sales (for purpose of demonstration we increased sales by 400%)

# Bingo Establishments as licensed retailers:	0
Calendar Year 1992 Instant Sales:	\$1,076,000
Calendar Year 1992 Pull-Tab Sales:	\$2,120,000
Total Calendar Year 1992 Sales	\$3,196,000
State Gaming Fund Contribution from Sales:	\$0
State revenue generated by 1% tax on Sales	\$ 31,960

Non-Financial Considerations

The Lottery was created and exists to operate games of chance in an atmosphere that secures equal opportunity to win for all players based on rules approved by the Attorney Generals' office and the Kansas Lottery Commission. If the State of Kansas allows other entities to operate games of chance without the benefit of a public agency (Lottery) to over-see the operations, the public trust on which every lottery is based does not exist. The security and internal controls which are so vital to the operation and ultimate success of the Kansas Lottery would not be present in privately operated games of chance.

K · A · N · S · A · S
WINE & SPIRITS
WHOLESALE ASSOCIATION, INC.

March 17, 1993

To: House Committee on Federal and State Affairs
FROM: R. E. "Tuck" Duncan and John Bottenberg
Kansas Wine & Spirits Wholesalers Association
RE: Senate Bill 322

The K.W.S.W.A. supports SB 322. Simply stated, this bill will allow the sale of any size package approved by the Alcoholic Beverage Control, which could include the 50ml container. Sales by wholesalers to retailers of 50ml containers would be by "sleeve," [fn.1] and from retailers to their customers by the container, "sleeve" or case. Currently, except for under 100ml items now prohibited by law, regulation of containers has been responsibly controlled by the Alcoholic Beverage Control. The last modification of this statute, which allowed 187ml wine containers, has not created any adverse effects in the market, and has met with wide consumer appeal. The 50ml container has multiple uses in the travel and hospitality industry. 40 states and the District of Columbia have provisions for the sale of these containers. [f.n.2] Kansas may have an opportunity to develop a commercial airline business by restocking, and many private aircraft are serviced in Kansas and would be restocked with these items. Bus charters that originate in Kansas, particularly those headed to Colorado, acquire these containers at the stores in Colorado. Here is a existing market, but Kansas is unable to meet the demand and thus loses sales and tax revenues. We respectfully requests your support for SB 322 to allow Kansas this specialty item beneficial to the travel and hospitality industry. Thank you for your consideration.

f.n.1: "sleeve" a unit generally containing 10 or 12 items, whereas a case contains 120 containers.

f.n.2: Source: Summary of State Laws & Regulations relating to Distilled Spirits, 27th Edition, DISCUS.

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