

MINUTES OF THE SENATE FEDERAL AND STATE AFFAIRS COMMITTEE

The meeting was called to order by Chairman Pete Brungardt at 10:30 a.m. on January 17, 2008 in Room 526-S of the Capitol.

All members were present.

Committee staff present:

Kathie Sparks, Kansas Legislative Research Department
Dennis Hodgins, Kansas Legislative Research Department
Melissa Doeblin, Revisor of Statutes Office
Theresa Kiernan, Revisor of Statutes Office
Connie Burns, Committee Assistant

Conferees appearing before the committee:

Edwin Van Petten, Kansas Lottery Commission
Keith Kocher, Kansas Lottery Commission

Others attending:

See attached list.

Ed Van Petten, Executive Director, Kansas Lottery Commission, provided the committee an update on the Kansas Lottery and SB 66. (Attachment 1) The Kansas Lottery does not propose any additional legislation for this session. Sales for the FY 2007 totaled \$240 million and presently 1.35% behind last year's sales. The 2002 legislature allowed the Lottery to modify the method of calculating transfers made each month, the request was made to give more flexibility in operations and make it possible to increase prize payouts to bolster sales. With November transfer the lottery surpassed \$1 billion in transfers.

The primary concern continues to be security, both in gaming system and field operations; the Lottery Commission continues to reduce the use of paper to the greatest degree possible. The Lottery has developed marketing partnerships with Kansas businesses and industries, with the intent of exposure of Kansas businesses, industry and tourism, as well as to generate enthusiasm in Kansas citizens for games. This seems to be a good way to stimulate economic development in Kansas, while generating revenue for the state. The funds for the Veteran's Benefit games are distributed one-half to the National Guard Scholarship fund and one-half to Veteran's Commission to assist with maintenance of the Soldiers' Homes and Veterans' Cemeteries.

The lottery celebrated 20 years of operation with a birthday event on November 9, 2007. Currently the Lottery has a Request for Proposal (RFP) issued for an advertising agency and anticipate receiving bids from a number of agencies; also there will be an RFP issued for printing of instant tickets.

Mr. Van Petten introduced staff:

- Keith Kocker, Director of Gaming Facilities
- Stephen Durrell, Assistant Attorney General to the Kansas Lottery
- Sally Lunsford, Director of Communications

Keith Kocher, Director of Gaming Facilities, updated the committee on SB 66, The Kansas Expanded Lottery Act (KELA). (Attachment 2)

- County referendum votes were successful in Wyandotte County (for a casino and a racino), and Cherokee and Ford counties (casino only). The referendum votes in Sedgwick County failed on both the casino and racino initiatives.
- The Kansas Lottery, the Kansas Racing and Gaming Commission (KRG) and the Chief Gaming Officer, Mr. Robert Krehbiel continues to consult and cooperate on a number of issues related to implementation of the KELA.
- All parties have worked with the Office of the Division of the Budget to arrive at consensus estimates of projected gaming income
- The Lottery issued a "Request for Information" pertaining to the central computer system and received five replies from interested vendors; the central system must be purchased or leased on behalf of the Lottery Commission by and at the expense of the gaming managers. The same system will

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- be utilized for all racing and casino activities.
- Providers have conducted demonstrations for the Lottery and the KRGC and provided information regarding their respective systems
- The Lottery has hired Mr. Dan Biles to represent its interests in the lawsuit filed by the Kansas Attorney General, to prepare and assist in the negotiation of contracts for all gaming facilities, to prepare applicable rules and regulations, and to act as a general consultant in other areas pertinent to implementation of the KELA
- The Assistant Attorney General Keith Kocher, assigned to the Lottery for the past 8 years has been promoted to Director of Gaming Facilities to devote most of his time to implementation of KELA
- Stephen Durrell, former Assistant Attorney General at the KRGC, has transferred and will take over all Lottery duties
- The Lottery is currently considering transferring one individual from its Security Department to focus more attention to KELA matters.
- The Lottery and KRGC have been in contact with individuals who may be retained as experts on various matters, including the gaming facility managers, financial ability to perform, market potential, and general review and recommendation regarding the manager contracts.

For casinos all deadlines for Lottery Gaming Facility Manager applications have now expired and a total of thirteen (13) applications have been timely received for the gaming zones:

- Southeast (only applicant) - Kansas Penn Gaming (Penn National)
- South Central (4 applicants) - Sumner Gaming Ventures (MGM, Foxwoods, Chisholm), Sumner Gaming Joint Venture (Harrah's), Penn Sumner (Penn National), Marvel Gaming (Binion family)
- Southwest (2 applicants) - Butler National Service Corp (Boot Hill Casino), Dodge City Resort and Gaming (Ingenus Management; Long Branch Gaming)
- Northeast (6 applicants) - Golden Hearland Casino (Sartini Family Trust), Kansas Entertainment (Hard Rock Hotel & Casino; Kansas Speedway), Pinnacle Entertainment (PNK-Kansas), Legends Sun (RED Leg Sun; Mohegan Tribal Gaming Authority), Sands Kansas (Edwardsville, Las Vegas Sands), Sands Kansas (Kansas City; Las Vegas Sands)

The Lottery has 90 days from the expiration of each application deadline to determine if an applicant meets the various KELA requirements to become a manager; if so, the Lottery will attempt to negotiate a contract with each manager that qualifies. The deadline maybe extended by the Governor for up to 60 days.

Per the KELA, various rules and regulations were adopted by the Lottery Commission within 120 days of enactment of the KELA; there are 19 regulations covering items such as: certification of net electronic gaming machine income; advertising materials; kind, type and location of machines; accounting and reporting, floor plans; surveillance; security; and others (KAR 111-101-1 through and including 111-101-19).

Racinos, per regulations (KAR 111-101-2) the Executive Director of the Lottery made an initial allocation of gaming machines in each Zone:

- Northeast Zone - 800
- South Central Zone - 800
- Southeast Zone - 600

Because the referendum vote was defeated in Sedgwick County (the county in which the parimutuel track was located in South Central Zone) the Executive Director may reallocate the number of gaming machines available at the two remaining tracks. Only existing parimutuel licensees may become Racetrack Gaming Facility (racino) managers, so no formal application process is required; each manager must still have the financial ability to fund the operation of the racino and be current in the payment of all taxes. The only racinos currently authorized to offer games under the KELA are the Woodlands Racetrack in the Northeast Zone (Kansas City) and Camptown Racetrack in the Southeast Zone (Frontenac, near Pittsburg)

Mr. Biles is currently working with Lottery staff and is in the process of preparing a draft casino manager contract; he has prepared a draft racino contract, which has been reviewed and modified by Lottery and KRGC personnel, and negotiations with both racetrack facilities is ongoing.

The briefs and reply briefs have been filed in an as "original action" with the Kansas Supreme Court, but was ruled that the case should first be heard in the District Court of Shawnee County, Kansas. Judge Andrews hopes to render his opinion by February 1, 2008. It is expected that no matter how Judge Andrews rules, the

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case will be appealed; and it is also likely the case will be certified directly to the Supreme Court rather than to the Court of Appeals and is unknown when the Supreme court will render its decision.

A copy of the KELA, the application procedure, rules and regulations and numerous other documents related to the KELA may be found on the Kansas Lottery's website: www.kslottery.com. The information is listed in the left-hand margin of the home page.

The meeting was adjourned at 11:15 am. The next scheduled meeting is January 22, 2008.