

AGENCY OVERVIEW
TESTIMONY PRESENTED TO
THE SENATE FEDERAL AND STATE AFFAIRS COMMITTEE
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by
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The Kansas Racing and Gaming Commission (KRG) is the agency empowered by the Kansas Expanded Lottery Act (KELA) and the Kansas Parimutuel Racing Act to regulate expanded gaming and pari-mutuel wagering in Kansas, respectively. The Commission consists of five members appointed by the Governor and confirmed by the Senate for four year terms. The current terms of Chairman Falstad and Vice-Chairman Braun expired January 15, 2012. The KRG meets monthly to address regulatory matters primarily related to casino-style gaming in Kansas as pari-mutuel wagering activity remains dormant with the last racetrack closing in 2008. The members of the Commission presently consist of:

William Falstad, Fredonia, Chair
Glenn Braun, Hays, Vice-Chair
Tim Schultz, Topeka, Secretary
Dennis McKinney, Greensburg
Jay Shadwick, Overland Park

The day to day operations of the agency are administered by an executive director and staff. The KRG was approved for 75.5 FTE staff for fiscal year (FY) 2012 and FY 2013. The FTE levels for FY 2012 and FY 2013 were an increase from 49.5 FTE staff approved and 38 FTE actual staff for FY 2011. The increase from 38 actual FTE staff at FY 2011 to 75.5 approved FTE staff for FY 2012 and FY 2013 primarily reflects the addition of 29.5 FTE law enforcement and licensing staff to process the increased volume of licensing related to the Kansas Star Casino in Mulvane and the Hollywood Casino at the Kansas Speedway in Kansas City. A review of other agency staffing needs resulted in a reduction of staff of 1.5 FTE for FY 2012 and FY 2013 through the elimination of unfilled positions while at the same time increasing audit and electronic security FTE. These staffing levels appear to be adequate for the future based upon current expected activity under KELA only. Executive staff includes:

Richard Petersen-Klein, Executive Director
Kathy Lewis, Director of Administration, Finance and Audit
Don Brownlee, Director of Security and Licensing
Bill Smith, Director of Information Technology and Electronic Security
Carol Spiker, Responsible Gambling Program Coordinator
Judith Taylor, General Counsel

The KRGC is a fee funded agency and all operations are funded by the lottery gaming facility managers that are under contract with the Kansas Lottery. The Commission does not receive any state general funds. The agency's FY 2012 revised budget is just over \$5.4 million from expanded lottery gaming funds, and excludes the State Gaming Agency's budget, which is consolidated with the KRGC's budget for processing and approval only. The KRGC's revised budget is a reduction of approximately \$6.1 million from the approved FY 2012 budget reflecting primarily the acceleration of the repayment of virtually all of the debt service from the Pooled Money Investment Board (PMIB) loan into FY 2011. The remainder of the PMIB loan, less than \$100,000 including interest and principal, was repaid by December 31, 2011 as scheduled. Future budget levels are expected to see adjustments related to increasing costs based upon current expected activity under KELA only.

The KRGC's primary mission is to ensure that state-owned casino-style gaming and pari-mutuel racetrack wagering is conducted with integrity. The State Gaming Agency's responsibility is the oversight of the tribal gaming operations in Kansas. The KRGC has no authority for any aspect of tribal gaming oversight.

As a regulatory agency, our chief mission is to seek compliance. The agency's regulatory duties include licensing, security, audit, electronic security, and responsible gambling coordination.

The KRGC issues licenses for the casino management companies, their employees, vendors, suppliers, and KRGC employees. The agency received and processed more than 2,800 background applications in calendar year (CY) 2011, including over 30 corporate applications and over 70 KRGC employees. Approximately 2,500 background applications were received from individuals (non-KRGC employees) seeking licensing for the first time in Kansas and approximately 260 were from individuals (non-KRGC employees) seeking renewal after the initial 2 year license period expired. The agency issued approximately 2,700 licenses in CY 2011, including temporary, permanent and renewal permits, both individual and corporate. Temporary permits are issued following electronic database verification that no criminal or credit history exists that could disqualify the applicant. Before submitting applicants to the Commission for permanent license approval the agency completes the background process. The KRGC is presently processing over 1,000 background applications where temporary permits have been issued.

In addition to performing background investigations, the agency's on-site security staff monitors casino operations and casino employee and patron activity for regulatory compliance in order to maintain the public's confidence in the integrity of gaming in Kansas. The on-site security staff acts as support for the casino's security personnel, and as a liaison between the casino and local law enforcement. In CY 2011 KRGC enforcement agents in Dodge City processed 35 criminal offense reports for such offenses as stolen vouchers and personal belongings, counterfeit bills and checks, manipulation of slot machines, table games cheating, trespass and others. KRGC agents processed 42 incident reports for regulatory violations of which 36 resulted in disciplinary actions by the agency, including the off-premises poker activity of over 20 Boot Hill Casino employees, resulting in license revocations, suspensions, and/or settlements in lieu thereof, for individual casino employees and the casino operator. On-site KRGC staff receives numerous calls each week related to notifications required by regulation, requests for assistance and information, regulatory permissions, slot machine inspections, equipment malfunctions and other matters.

The agency's electronic security staff work with gaming machine manufacturers and suppliers to ensure the gaming devices and their supporting systems are programmed and configured to operate in accordance with state law and KRGC regulations. The KRGC employs an independent testing laboratory to ensure all electronic gaming devices have been tested to KRGC specifications. In CY 2011 the Commission approved over 2,600 electronic gaming components and revoked 36. The agency's electronic security, audit, on-site law enforcement and other staff tested and certified over 1,300 slot machines in CY 2011. The approval of electronic gaming components, and the testing of slot machines, is a constant process with the advent of new games and slot machines.

The agency's audit, security, and responsible gambling staff completed the Kansas Star Casino's internal control plans covering all aspects of casino operations including, among others, accounting, slot machines, table games, security, surveillance, and responsible gambling. The internal control plans for the Hollywood Casino at the Kansas Speedway were completed and approved this past week with most of the work performed in CY 2011 by the agency's audit, security and responsible gambling staff. The audit staff reviewed and approved over 80 internal control amendments reflecting improved operating procedures and protection of state-owned assets, in addition to quarterly reviews of casino internal audit operations and monthly financial reporting. These auditing tasks will increase with the opening of the Kansas Star and Hollywood Casinos.

In addition to reviewing casino operator's responsible gambling plan for regulatory compliance, the agency's responsible gambling coordinator monitors state-owned casino operator's responsible gambling employee training and implementation on a regular basis. The responsible gambling coordinator administers and maintains the voluntary exclusion program, which as of CY 2011 consisted of 60 people. The agency's responsible gambling coordinator participates in various state-wide efforts to improve awareness, train providers, and coordinate efforts among local task forces, alliances, work groups, providers, and other state agencies in an effort to efficiently and effectively provide help to those with gambling problems and other co-occurring addictions.

The KRGC acts as the state's coordinating agency for most questions and complaints regarding illegal gambling. In CY 2011 the agency received and continues to track approximately 200 illegal gambling complaints of all types, which is consistent with CY 2010 volume of complaints. The agency first uses education as a means of obtaining voluntary compliance related to reported illegal gambling activity as most Kansans are law abiding citizens. When education fails the KRGC works with local law enforcement to verify the nature of the activity, and if the activity is determined to be illegal gaming, support local authorities in the prosecution of the illegal gaming activity by providing case preparation assistance and expert testimony. Nevertheless, the limited resources of both state and local authorities and higher priority matters reduce the number of cases local authorities are able to prosecute. The KRGC must rely on state and local authorities to bring criminal actions because the agency is not a criminal enforcement agency by law.

Except for state sanctioned gambling (i.e. lottery, expanded lottery, pari-mutuel wagering, bingo and tribal casinos) all other forms of gambling violate the Kansas Constitution and the Kansas criminal code. KELA attempted to define and prohibit "gray machines," but the Kansas Supreme Court in 2011 held the definition of a "gray machine" in KELA unconstitutionally overbroad, rendering the enforcement provisions related thereto ineffective. The KRGC

continues to rely upon the criminal code to address illegal gambling activity in Kansas, and recently applied the criminal code in determining that a device voluntarily provided to the KRGC for review by the distributor and manufacturer constituted an illegal gambling device and should not be distributed in the State of Kansas.

The KRGC is presently preparing to observe and evaluate the Hollywood Casino's controlled demonstration, which is the final step in the certification process before the third state-owned casino-style gaming facility will open to the public in Kansas. The agency continues to monitor regulatory compliance at the Boot Hill Casino and Resort in Dodge City, and began full time monitoring of regulatory compliance at the Kansas Star Casino in Mulvane in December 2011.

The pari-mutuel racetracks in Kansas ceased operations in 2008 indicating that, until KELA was amended, the racetracks would remain closed. Since that time all pari-mutuel wagering licenses have expired and no renewal applications have been filed with the KRGC. Efforts are presently underway by various interested parties seeking another vote in Sedgwick County to allow slot machines.