

March 18, 2015

The Honorable Mark Hutton, Chairperson  
House Committee on Commerce, Labor and Economic Development  
Statehouse, Room 521-E  
Topeka, Kansas 66612

Dear Representative Hutton:

**SUBJECT:** Fiscal Note for HB 2171 by House Committee on Federal and State Affairs

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2171 is respectfully submitted to your committee.

HB 2171 would amend the Kansas Lottery Act. Under current law, the Kansas Lottery is prohibited from advertising at amateur athletic or sporting events, including events located at the colleges and universities under control of the Board of Regents. The bill would eliminate this prohibition, but would prohibit the Kansas Lottery from advertising at sporting events where the majority of participants are under the age of 18, including, but not limited to, events under control of the Kansas State High School Activities Association. The bill would allow the Kansas Lottery to act as its own retailer and to sell its own products. In addition, the bill would authorize the use of electronic product dispensers at lottery retailer locations.

The bill would prohibit the purchase or the attempted purchase of a lottery product by a person under the age of 18. If a minor is found guilty of this offense, the court would require a fine of between \$200 and \$500, and could impose 40 hours of community service. Under current law, it is only prohibited for a lottery retailer to knowingly sell a lottery product to a minor.

| Estimated State Fiscal Effect |                |                      |                |                      |
|-------------------------------|----------------|----------------------|----------------|----------------------|
|                               | FY 2015<br>SGF | FY 2015<br>All Funds | FY 2016<br>SGF | FY 2016<br>All Funds |
| Revenue                       | --             | --                   | \$3,000,000    | \$3,000,000          |
| Expenditure                   | --             | --                   | --             | --                   |
| FTE Pos.                      | --             | --                   | --             | --                   |

The Kansas Lottery estimates that HB 2171 would increase State General Fund revenues by \$3.0 million in FY 2016 and \$8.0 million in FY 2017. The increase in revenues and how the November 10, 2014 consensus revenue estimate for FY 2016 would be affected are shown in the following table:

Effect on FY 2016 Consensus Revenue Estimates  
(Dollars in Thousands)

| Receipt Description    | Consensus Revenue Estimates (Nov.10, 2014) | Change in Revenue FY 2016 | Proposed Adjusted CRE FY 2016 |
|------------------------|--|---------------------------|-------------------------------|
| Motor Carrier          | \$ 12,000                                  | \$ --                     | \$ 12,000                     |
| Income Taxes:          |  |                           |                               |
| Individual             | 2,300,000                                  | --                        | 2,300,000                     |
| Corporate              | 470,000                                    | --                        | 470,000                       |
| Financial Institutions | 39,000                                     | --                        | 39,000                        |
| Excise Taxes:          |  |                           |                               |
| Retail Sales           | 2,270,000                                  | --                        | 2,270,000                     |
| Compensating Use       | 380,000                                    | --                        | 380,000                       |
| Cigarette              | 88,000                                     | --                        | 88,000                        |
| Severance              | 115,900                                    | --                        | 115,900                       |
| All Other Excise Taxes | 114,100                                    | --                        | 114,100                       |
| Other Taxes            | <u>181,600</u>                             | <u>--</u>                 | <u>181,600</u>                |
| Total Taxes            | \$5,970,600                                | \$ --                     | \$5,970,600                   |
| Other Revenues:        |  |                           |                               |
| Interest               | \$ 8,000                                   | \$ --                     | \$ 8,000                      |
| Transfers              | (222,500)                                  | 3,000                     | (219,500)                     |
| Agency Earnings        | <u>55,300</u>                              | <u>--</u>                 | <u>55,300</u>                 |
| Total Other Revenues   | (\$ 159,200)                               | \$ 3,000                  | (\$ 156,200)                  |
| Total Receipts         | \$5,811,400                                | \$ 3,000                  | \$5,814,400                   |

The fiscal effect to state revenues during subsequent years would be as follows:

|                    | <u>FY 2017</u> | <u>FY 2018</u> | <u>FY 2019</u> | <u>FY 2020</u> |
|--------------------|----------------|----------------|----------------|----------------|
| State General Fund | \$8,000,000    | \$8,700,000    | \$9,600,000    | \$10,600,000   |

The Kansas Lottery indicates the bill has the potential to increase lottery ticket sales by allowing the agency more flexibility in using its advertising dollars at colleges and universities. The Kansas Lottery indicates that it currently advertises on radio and television broadcasts for colleges and university sporting events. Allowing the Kansas Lottery to advertise at these sporting events would enhance the effectiveness of its overall advertising efforts and potentially allow the agency to spend more of its advertising dollars with colleges and universities. However, the increase in additional lottery ticket sales is estimated to be negligible. Allowing the Kansas Lottery to sell its own products at special events would reduce administrative costs and would save the agency from paying commissions to outside retailers for lottery ticket sales at special events; however, the cost savings are estimated to be negligible.

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The Kansas Lottery indicates the use of electronic product dispensers at lottery retailer locations has the potential to increase sales through improving product availability and efficiently delivering lottery products to its customers. The Kansas Lottery indicates that 38 other lottery jurisdictions in the United States use electronic product dispensers and this method of dispensing lottery products to customers is often requested by lottery retailers. The Kansas Lottery indicated that allowing electronic product dispensers are estimated to increase the Kansas Lottery's year end transfer to the State General Fund by \$3.0 million in FY 2016 and \$8.0 million in FY 2017. The Kansas Lottery is unable to estimate the additional expenses for this program because it has not determined the most cost efficient method to acquire electronic product dispensers and to place them at lottery retailer locations. In other lottery jurisdictions, electronic product dispensers have been purchased, leased, or acquired from a revenue sharing agreement.

The Kansas Lottery indicates the penalties for the purchase or the attempted purchase of a lottery product by a person under the age of 18 mirror the penalties for the purchase or alcohol by minors in the state. The Kansas Lottery indicates the while persons under the age of 18 purchasing lottery products is not, nor has it historically been a problem, the Kansas Lottery takes the issue of underage gaming very seriously and indicates that it wants to try to prevent that action when possible. This statutory change would not shift any existing responsibility away from the lottery retailer.

The bill has the potential for increasing litigation in the courts because of the new violation created by the bill. If it does, the Office of Judicial Administration indicates that there would be a fiscal effect on the operations of the court system. However, it is not possible to predict the number of additional court cases that would arise or how complex and time-consuming they would be. Therefore, a precise fiscal effect cannot be determined. In any case, the fiscal effect would most likely be accommodated within the existing schedule of court cases and would not require additional resources.

The Board of Regents indicates the bill would have no fiscal effect on the Board of Regents or any Kansas postsecondary institution. Any fiscal effect associated with HB 2171 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,



Shawn Sullivan,  
Director of the Budget

cc: Stephen Durrell, Lottery  
Mary Rinehart, Judiciary  
Scott Schultz, Sentencing Commission  
Kelly Oliver, Board of Regents