

HOUSE BILL No. 2601

By Committee on Appropriations

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AN ACT concerning the lottery; abolishing the lottery commission; transferring the powers and duties of the lottery; amending K.S.A. 74-8702, as amended by section 5 of 2001 House Bill No. 2038, 74-8706, as amended by section 2 of 2001 House Bill No. 2038, 74-8714, 74-8716 and 74-8720 and K.S.A. 2000 Supp. 74-8705, as amended by section 4 of 2001 House Bill No. 2038, 74-8707, as amended by section 3 of 2001 House Bill No. 2038, 74-8710, as amended by section 6 of 2001 House Bill No. 2038, and 74-8723, as amended by section 1 of 2001 House Bill No. 2038 and repealing the existing sections; also repealing K.S.A. 2000 Supp. 74-8709.

Be it enacted by the Legislature of the State of Kansas:

New Section 1. (a) The Kansas lottery commission created by K.S.A. 74-8709, and amendments thereto, is hereby abolished.

- (b) Except as otherwise provided by law, whenever the lottery commission, or words of like effect, is referred to or designated by a statute, contract or other document, such reference or designation shall be deemed to apply to the executive director.
- (c) Except as otherwise provided by law, whenever the chairperson of the lottery commission, or words of like effect, is referred to or designated by a statute, contract or other document, such reference or designation shall be deemed to apply to the executive director.
- (d) All rules and regulations of the lottery commission in existence on July 1, 2002, shall continue to be effective and shall be deemed to be duly adopted rules and regulations of the executive director until revised, amended or nullified pursuant to law.
- (e) All orders and directives of the lottery commission in existence on the effective date of this act shall continue to be effective and shall be deemed to be orders and directors of the executive director until revised, amended or nullified pursuant to law.
- (f) The executive director shall succeed to whatever right, title or interest the lottery commission has acquired in any property, and the executive director shall hold the same for and in the name of the state of Kansas. On and after July 1, 2002, whenever any statute, contract, deed or other document concerns the power or authority of the lottery com-

mission to acquire, hold or dispose of any property or any interest therein, the executive director shall succeed to such power or authority.

- Sec. 2. K.S.A. 74-8702 as amended by section 5 of 2001 House Bill No. 2038 is hereby amended to read as follows: 74-8702. As used in the Kansas lottery act, unless the context otherwise requires:
- (a) "Commission" means the Kansas lottery commission *abolished by section 1, and amendments thereto.*
- (b) "Executive director" means the executive director of the Kansas lottery.
- (c) "Gaming equipment" means any electric, electronic or mechanical device or other equipment unique to the Kansas lottery used directly in the operation of any lottery and in the determination of winners pursuant to this act.
- (d) "Kansas lottery" means the state agency created by this act to operate a lottery or lotteries pursuant to this act.
- (e) "Lottery retailer" means any person with whom the Kansas lottery has contracted to sell lottery tickets or shares, or both, to the public.
- (f) "Lottery" or "state lottery" means the lottery or lotteries operated pursuant to this act.
- (g) "Major procurement" means any gaming product or service, including but not limited to facilities, advertising and promotional services, annuity contracts, prize payment agreements, consulting services, equipment, tickets and other products and services unique to the Kansas lottery, but not including materials, supplies, equipment and services common to the ordinary operations of state agencies.
- (h) "Person" means any natural person, association, corporation or partnership.
- (i) "Prize" means any prize paid directly by the Kansas lottery pursuant to its rules and regulations.
- (j) "Share" means any intangible manifestation authorized by the Kansas lottery to prove participation in a lottery game.
- (k) "Ticket" means any tangible evidence issued by the Kansas lottery to prove participation in a lottery game.
- (l) "Vendor" means any person who has entered into a major procurement contract with the Kansas lottery.
- (m) "Returned ticket" means any ticket which was transferred to a lottery retailer, which was not sold by the lottery retailer and which was returned to the Kansas lottery for refund by issuance of a credit or otherwise.
- (n) "Video lottery machine" means any electronic video game machine that, upon insertion of cash, is available to play or simulate the play of a video game authorized by the commission, including but not limited to bingo, poker, black jack and keno, and which uses a video display and

microprocessors and in which, by chance, the player may receive free games or credits that can be redeemed for cash.

- (o) (1) "Lottery machine" means any machine or device that allows a player to insert cash or other form of consideration and may deliver as the result of an element of chance, regardless of the skill required by the player, a prize or evidence of a prize, including, but not limited to:
- (A) Any machine or device in which the prize or evidence of a prize is determined by both chance and the player's or players' skill, including, but not limited to, any machine or device on which a lottery game or lottery games, such as poker or blackjack, are played;
- (B) any machine or device in which the prize or evidence of a prize is determined only by chance, including, but not limited to, any slot machine or bingo machine; or
- (C) any lottery ticket vending machine, such as a keno ticket vending machine, pull-tab vending machine or an instant-bingo vending machine.
 - (2) "Lottery machine" shall not mean:
- (A) Any food vending machine defined by K.S.A. 36-501, and amendments thereto:
- (B) any nonprescription drug machine authorized under K.S.A. 65-650, and amendments thereto;
- (C) any machine which dispenses only bottled or canned soft drinks, chewing gum, nuts or candies; or
- (D) any machine excluded from the definition of gambling devices under subsection (d) of K.S.A. 21-4302, and amendments thereto.
- Sec. 3. K.S.A. 2000 Supp. 74-8705 as amended by section 4 of 2001 House Bill No. 2038 is hereby amended to read as follows: 74-8705. (a) Major procurement contracts shall be awarded in accordance with K.S.A. 75-3738 through 75-3744, and amendments thereto, or subsection (b), as determined by the director *of the division of purchases*, except that:
- (1) The contract or contracts for the initial lease of facilities for the Kansas lottery shall be awarded upon the evaluation and approval of the director, the secretary of administration and the director of architectural services;
- (2) The commission executive director shall designate certain major procurement contracts or portions thereof to be awarded, in accordance with rules and regulations of the commission executive director, solely to minority business enterprises.
- (b) The director of the division of purchases may award any major procurement contract by use of a procurement negotiating committee. Such committee shall be composed of: (1) The executive director or a Kansas lottery employee designated by the executive director; (2) the chairperson of the commission or a commission member designated by the chairperson; and (3) the director of the division of purchases or an

employee of such division designated by the director. Prior to negotiating a major procurement contract, the committee shall solicit bids or proposals thereon. The division of purchases shall provide staff support for the committee's solicitations. Upon receipt of bids or proposals, the committee may negotiate with one or more of the persons submitting such bids or proposals and select from among such persons the person to whom the contract is awarded. Such procurements shall be open and competitive and shall consider relevant factors, including security, competence, experience, timely performance and maximization of net revenues to the state. If a procurement negotiating committee is utilized, the provisions of K.S.A. 75-3738 through 75-3744, and amendments thereto, shall not apply. Meetings conducted by the procurement negotiating committee shall be exempt from the provisions of the Kansas open meeting act, K.S.A. 75-4317 through 75-4320a, and amendments thereto.

(c) Before a major procurement contract is awarded, the executive director shall conduct a background investigation of: (1) The vendor to whom the contract is to be awarded; (2) all officers and directors of such vendor; (3) all persons who own a 5% or more interest in such vendor; (4) all persons who own a controlling interest in such vendor; and (5) any subsidiary or other business in which such vendor owns a controlling interest. The vendor shall submit appropriate investigation authorizations to facilitate such investigation. The executive director may require, in accordance with rules and regulations of the commission, that a vendor submit any additional information considered appropriate to preserve the integrity and security of the lottery. In addition, the executive director may conduct a background investigation of any person having a beneficial interest in a vendor. The secretary of revenue, securities commissioner, attorney general and director of the Kansas bureau of investigation shall assist in any investigation pursuant to this subsection upon request of the executive director. Whenever the secretary of revenue, securities commissioner, attorney general or director of the Kansas bureau of investigation assists in such an investigation and incurs costs in addition to those attributable to the operations of the office or bureau, such additional costs shall be paid by the Kansas lottery. The furnishing of assistance in such an investigation shall be a transaction between the Kansas lottery and the respective officer and shall be settled in accordance with K.S.A. 75-5516, and amendments thereto.

Upon the request of the chairperson, the Kansas bureau of investigation and other criminal justice agencies shall provide to the chairperson all background investigation information including criminal history record information, arrest and nonconviction data, criminal intelligence information and information relating to criminal and background investigations of a vendor to whom a major procurement contract is to be awarded.

Such information, other than conviction data, shall be confidential and shall not be disclosed, except as provided in this section. In addition to any other penalty provided by law, disclosure of such information shall be grounds for removal from office or termination of employment.

- (d) All major procurement contracts shall be subject to approval of the commission.
- (e) (d) The executive director shall not agree to any renewal or extension of a major procurement contract unless such extension or renewal is awarded in the manner provided by this section.
- Sec. 4. K.S.A. 74-8706 as amended by section 2 of 2001 House Bill No. 2038 is hereby amended to read as follows: 74-8706. The executive director shall have the duty to:
- (a) Make and keep books and records which accurately and fairly reflect each day's transactions, including but not limited to: The distribution of tickets and shares to lottery retailers; receipt of funds, prize claims, prize disbursements made by the Kansas lottery or otherwise or prizes liable to be paid by the Kansas lottery; expenses and other financial transactions of the Kansas lottery necessary so as to permit daily accountability.
- (b) Make quarterly and annual financial reports to the commission, the governor, the state treasurer and the legislature. Such reports shall be based upon generally accepted accounting principles and include a full and complete statement of lottery revenues, prize disbursements, expenses, net revenues and other financial transactions for the reporting period.
- (c) Make available for inspection by the commission, upon request, all books, records, files and other information and documents of the Kansas lottery.
- (d) (c) Engage, in accordance with K.S.A. 74-8705, and amendments thereto, an independent firm experienced in marketing research and analysis to conduct periodically an evaluation to determine the effectiveness of marketing, promotion and public information programs used by the Kansas lottery and make recommendations which will enhance such programs.
- (e) (d) Prepare and submit budgets and proposals for the operation of the Kansas lottery.
- (f) (e) Operate the Kansas lottery in such a manner that, after the initial state appropriation, it is self-sustaining and self-funded.
- (g) (f) Make available at the point of sale of any lottery tickets or shares a list of the odds of winning such game, based upon the number of tickets or shares projected to be sold.
- (h) (g) Make provision for the timely and efficient transfer of funds due from lottery retailers to the lottery operating fund, including the use

of electronic funds transfers whenever possible.

- (h) Make an ongoing study of the operation and administration of lotteries in operation in other states or countries, of available literature on the subject, of federal laws and regulations which may affect the operation of the lottery and of the reaction of citizens of this state to existing or proposed features of lottery games, with a view toward implementing improvements that will tend to serve the purposes of this act.
- (i) Enter into written agreements with one or more other states or corporations made up of representatives of one or more other states' lotteries and participate in the operation, marketing and promotion of a joint lottery or joint lottery games, conforming to the provisions of this act. Such agreements shall not be subject to the provisions of K.S.A. 75-3738 through 75-3744, and amendments thereto.
- Sec. 5. K.S.A. 2000 Supp. 74-8707 as amended by section 3 of 2001 House Bill No. 2038 is hereby amended to read as follows: 74-8707. (a) The accounts and transactions of the Kansas lottery and the Kansas lottery commission shall be subject to an annual financial-compliance audit, and such other audits as directed by the legislative post audit committee, under the legislative post audit act. The annual audit shall be conducted as soon after the close of the fiscal year as practicable. The auditor to conduct this audit work shall be specified in accordance with K.S.A. 46-1122, and amendments thereto. If the legislative post audit committee specifies under such statute that a firm, as defined by K.S.A. 46-1112, and amendments thereto, is to perform all or part of such audit work, such firm shall be selected and shall perform such audit work as provided in K.S.A. 46-1123, and amendments thereto, and K.S.A. 46-1125 through 46-1127, and amendments thereto.

The post auditor shall compute annually the reasonably anticipated cost of providing audits pursuant to this subsection, subject to review and approval by the contract audit committee established by K.S.A. 46-1120, and amendments thereto. Upon such approval, the Kansas lottery shall reimburse the division of post audit for the amount approved by the contract audit committee. The furnishing of audit services pursuant to this subsection shall be a transaction between the post auditor and the Kansas lottery and shall be settled in accordance with the provisions of K.S.A. 75-5516, and amendments thereto.

(b) On or before December 31, 2004, and at least once every three years thereafter, there shall be conducted a security audit of the Kansas lottery. A security audit shall include a comprehensive study and evaluation of all aspects of security in the operation of the Kansas lottery. The auditor to conduct a security audit shall be specified in accordance with K.S.A. 46-1122, and amendments thereto. If the legislative post audit committee specifies under such statute that a person, as defined by K.S.A.

46-1112, and amendments thereto, other than the post auditor is to perform all or part of such audit work, such person shall be selected and shall perform such audit work as provided in the applicable provisions of K.S.A. 46-1123, and amendments thereto, and K.S.A. 46-1125 through 46-1127, and amendments thereto. The person selected to perform a security audit shall be experienced in security procedures, including, but not limited to, computer and systems security. A contract to conduct a security audit required by this subsection, shall be considered a major procurement contract as defined by K.S.A. 74-8702, and amendments thereto, and shall not be awarded until a background investigation is conducted on the person or firm selected to perform the audit. Such back-ground investigation shall be subject to the requirements of subsection (c) of K.S.A. 74-8705, and amendments thereto.

For the purpose of conducting a security audit under this subsection, a person or a firm selected to perform the security audit shall not be limited to a legal entity permitted by law to engage in practice as a certified public accountant.

The post auditor shall compute the reasonably anticipated cost of providing audits pursuant to this subsection, subject to review and approval by the contract audit committee established by K.S.A. 46-1120, and amendments thereto. Upon such approval, the Kansas lottery shall reimburse the division of post audit for the amount approved by the contract audit committee. The furnishing of audit services pursuant to this subsection shall be a transaction between the post auditor and the Kansas lottery and shall be settled in accordance with the provisions of K.S.A. 75-5516, and amendments thereto.

- Sec. 6. K.S.A. 2000 Supp. 74-8710 as amended by section 6 of 2001 House Bill No. 2038 is hereby amended to read as follows: 74-8710. (a) The commission, upon the recommendation of the executive director, shall adopt rules and regulations governing the establishment and operation of a state lottery as necessary to carry out the purposes of this act. Temporary rules and regulations may be adopted by the commission executive director without being subject to the provisions and requirements of K.S.A. 77-415 through 77-438, and amendments thereto, but shall be subject to approval by the attorney general as to legality and shall be filed with the secretary of state and published in the Kansas register. Temporary and permanent rules and regulations may include but shall not be limited to:
- (1) Subject to the provisions of subsection (c), the types of lottery games to be conducted, including but not limited to instant lottery, online and traditional games, but not including games on video lottery machines or lottery machines.
 - (2) The manner of selecting the winning tickets or shares, except that,

if a lottery game utilizes a drawing of winning numbers, a drawing among entries or a drawing among finalists, such drawings shall always be open to the public and shall be recorded on both video and audio tape.

- (3) The manner of payment of prizes to the holders of winning tickets or shares.
- (4) The frequency of the drawings or selections of winning tickets or shares.
- (5) The type or types of locations at which tickets or shares may be sold.
 - (6) The method or methods to be used in selling tickets or shares.
- (7) Additional qualifications for the selection of lottery retailers and the amount of application fees to be paid by each.
- (8) The amount and method of compensation to be paid to lottery retailers, including special bonuses and incentives.
 - (9) Deadlines for claims for prizes by winners of each lottery game.
- (10) Provisions for confidentiality of information submitted by vendors pursuant to K.S.A. 74-8705, and amendments thereto.
- (11) Information required to be submitted by vendors, in addition to that required by K.S.A. 74-8705, and amendments thereto.
- (12) The major procurement contracts or portions thereof to be awarded to minority business enterprises pursuant to subsection (a) of K.S.A. 74-8705, and amendments thereto, and procedures for the award thereof.
- (b) No new lottery game shall commence operation after the effective date of this act unless first approved by the governor or, in the governor's absence or disability, the lieutenant governor.
- (c) The lottery executive director shall adopt rules and regulations concerning the game of keno. Such rules and regulations shall require that the amount of time which elapses between the start of games shall not be less than four minutes.
- Sec. 7. K.S.A. 74-8714 is hereby amended to read as follows: 74-8714. (a) Employees of the Kansas lottery designated by the executive director are hereby vested with the power and authority of law enforcement officers in the execution of the duties imposed upon the executive director by this act and in enforcing the provisions of this act.
- (b) Employees designated by the executive director pursuant to subsection (a) shall have the authority to:
- (1) Make arrests, conduct searches and seizures and carry firearms while investigating violations of this act and during routine conduct of their duties as determined by the executive director or designee of the executive director;
- (2) make arrests, conduct searches and seizures and generally to enforce all the criminal laws of the state as violations of those laws are

 encountered by such employees during the routine performance of their duties: and

- (3) issue notices to appear pursuant to K.S.A. 22-2408 and amendments thereto.
- (c) No employee of the Kansas lottery shall be certified to carry firearms under the provisions of this section without having first successfully completed the firearm training course or courses prescribed for law enforcement officers under subsection (a) of K.S.A. 74-5604a, and amendments thereto.
- (d) The commission *executive director* may adopt rules and regulations prescribing other training required for such employees.
- Sec. 8. K.S.A. 74-8716 is hereby amended to read as follows: 74-8716. (a) It is unlawful for the executive director, a member of the commission or any employee of the Kansas lottery, or any person residing in the household thereof to:
- (1) Have, either directly or indirectly, an interest in a business knowing that such business contracts with the Kansas lottery for a major procurement, whether such interest is as a natural person, partner, member of an association, stockholder or director or officer of a corporation; or
- (2) accept or agree to accept any economic opportunity, gift, loan, gratuity, special discount, favor or service, or hospitality other than food and beverages, having an aggregate value of \$20 or more in any calendar year from a person knowing that such person (A) contracts or seeks to contract with the state to supply gaming equipment, materials, tickets or consulting services for use in the lottery or (B) is a lottery retailer or an applicant for lottery retailer.
- (b) It is unlawful for a lottery retailer, an applicant for lottery retailer or a person who contracts or seeks to contract with the state to supply gaming equipment, materials, tickets or consulting services for use in the lottery to offer, pay, give or make any economic opportunity, gift, loan, gratuity, special discount, favor or service, or hospitality other than food and beverages, having an aggregate value of \$20 or more in any calendar year to a person, knowing such person is the executive director, a member of the commission or an or other employee of the Kansas lottery, or a person residing in the household thereof.
 - (c) Violation of this section is a class A misdemeanor.
- (d) If the executive director, a member of the commission or an or other employee of the Kansas lottery, or any person residing in the household thereof, is convicted of an act described by this section, such executive director, member or other employee shall be removed from office or employment with the Kansas lottery.
- (e) In addition to the provisions of this section, all other provisions of law relating to conflicts of interest of state employees shall apply to the

 members of the commission and executive director and other employees of the Kansas lottery.

- Sec. 9. K.S.A. 74-8720 is hereby amended to read as follows: 74-8720. (a) As nearly as practical, an amount equal to not less than 45% of the total sales of lottery tickets or shares, computed on an annual basis, shall be allocated for payment of lottery prizes.
- (b) The prize to be paid or awarded for each winning ticket or share shall be paid to one natural person who is adjudged by the executive director, the director's designee or the retailer paying the prize, to be the holder of such winning ticket or share, or the person designated in writing by the holder of the winning ticket or share on a form satisfactory to the executive director, except that the prize of a deceased winner shall be paid to the duly appointed representative of the estate of such winner or to such other person or persons appearing to be legally entitled thereto.
- (c) The executive director shall award the designated prize to the holder of the ticket or share upon the validation of a claim or confirmation of a winning share. The executive director shall have the authority to make payment for prizes by any means deemed appropriate upon the validation of winning tickets or shares.
- (d) The right of a person to a prize drawn or awarded is not assignable.
- (e) All prizes awarded shall be taxed as Kansas source income and shall be subject to all state and federal income tax laws and rules and regulations. State income taxes shall be withheld from prizes paid whenever federal income taxes are required to be withheld under current federal law
- (f) Unclaimed prize money not payable directly by lottery retailers shall be retained for the period established by rules and regulations and if no claim is made within such period, then such unclaimed prize money shall be added to the prize pools of subsequent lottery games.
- (g) The state of Kansas, members of the commission and employees of the Kansas lottery shall be discharged of all further liability upon payment of a prize pursuant to this section.
- (h) The Kansas lottery shall not publicly disclose the identity of any person awarded a prize except upon written authorization of such person.
- Sec. 10. K.S.A. 2000 Supp. 74-8723 as amended by section 1 of 2001 House Bill No. 2038 is hereby amended to read as follows: 74-8723. (a) The Kansas lottery and the office of executive director of the Kansas lottery, established by K.S.A. 74-8703, and amendments thereto, and the Kansas lottery commission, created by K.S.A. 74-8709, and amendments thereto, shall be and hereby are abolished on July 1, 2008.
- (b) This section shall be part of and supplemental to the Kansas lottery act.

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Sec. 11. K.S.A. 74-8702, as amended by section 5 of 2001 House Bill No. 2038, 74-8706, as amended by section 2 of 2001 House Bill No. 2038, 74-8714, 74-8716 and K.S.A. 74-8720 and K.S.A. 2000 Supp. 74-8705, as amended by section 4 of 2001 House Bill No. 2038, 74-8707, as amended by section 3 of 2001 House Bill No. 2038, 74-8709, 74-8710, as amended by section 6 of 2001 House Bill No. 2038, and 74-8723, as amended by section 1 of 2001 House Bill No. 2038 are hereby repealed.

Sec. 12. This act shall take effect and be in force from and after July 1, 2002, and its publication in the statute book.