

SPECIAL SESSION OF 2005

SUPPLEMENTAL NOTE ON SENATE BILL NO. 2

As Amended by Senate Committee on
Ways and Means

Brief*

SB 2 would create the Kansas Expanded Lottery Act which would authorize the following:

- casino gambling in two destination development zones and in three other zones with subsequent approval by both the voters and the Legislature; and
- video lottery terminals (VLTs) at parimutuel facilities, with some revenues from each dedicated to the Kansas Education Opportunity Trust Fund.

The Kansas Lottery would be the owner and operator of video lottery terminals and casinos. The Lottery would contract with casino managers in destination development zones to conduct gaming and with parimutuel licensees for placement of video lottery terminals at each racetrack.

Destination Development Zones

The bill would establish two destination development zones in areas where advisory elections have occurred: the northeast Kansas development zone (Wyandotte County) and the southeast Kansas destination zone consisting of Crawford and Cherokee counties. Both of these zones would be eligible for casino management contracts as determined by the Lottery. The number of electronic gaming machines would be limited at sites in these zones by contracts with managers of casinos. Crawford and Wyandotte counties would be eligible to be

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

awarded casino contracts without additional voter approval since the counties conducted elections prior to enactment of the bill. Cherokee County would be required to conduct an election. However, approval of the county as the location of a casino would not need to be approved by the Legislature because the county is in an area designated as a destination development zone in the bill. All other counties would be eligible to have a casino if voters at an election approve having a casino in the county and if the Legislature designates the county as a destination development zone.

Casino manager contracts would provide accelerated lottery gaming facility payment of \$15,000 per machine and for the manager to recover the advanced payment. The payment would be required within 30 days of the approval of the management contract or the contract would be null and void.

Managers of the northeast and southcentral development zones would be required to invest at least \$150 million in the destination casino and managers in all other zones would be required to make an investment of at least \$90 million.

Parimutuel Facilities (Tracks)

The Kansas Lottery would be authorized to place VLTs at parimutuel racetracks in Wyandotte (2,000 VLTs), Sedgwick (1,500 VLTs), Crawford (1,500 VLTs), and Greenwood and Harper counties (500 VLTs between the two). The voters of the county must first approve placement of the VLTs within the county. The parimutuel sales agent would be required to pay an accelerated payment of \$15,000 per machine to the state. The accelerated payment would be repaid under terms of a management contract to the parimutuel sales agent.

Revenue Distribution—State; Kansas Education Opportunity Trust Fund

The bill would create the Lottery Gaming Facility Fund (LGFF). All revenues received from a casino manager would be deposited in the LGFF. Fifty percent of the moneys would be used to pay for gaming expenses and a transfer of 1.0 percent of casino revenues to the Problem Gambling Grant Fund. Expenses of gaming would include

payments, as provided by the management contract, to the county and city, if any, where the casino is located. If the destination development zone consists of only one county, the percentage of casino revenues paid to the county and city, if any, could not exceed 4.0 percent of casino revenues. If the zone includes more than one county, the percentage paid to the county and city, if any, could not exceed 3.0 percent and an amount not exceeding an aggregate of 1.0 percent would be paid in equal amounts to the other counties in the zone.

The remaining 50.0 percent of the casino revenues would be credited to the casino manager's account in the LGFF. After payment to the casino manager of not more than 22.0 percent of gross revenue, as provided in the management contract, the balance of at least 24.0 percent of the gross revenue, or 78.0 percent of residual revenue, whichever is greater, would be transferred to the Kansas Education Opportunity Trust Fund (which would be created by the bill) to fund preschool, kindergarten, elementary, secondary and postsecondary education programs. Moneys in the fund could not be used to supplant moneys appropriated for education during the 2006 regular session for FY 2006.

VLT Revenue

Each video lottery parimutuel licensee would receive 22.0 percent of the net video lottery terminal income as a management fee, plus net lease for facilities. Remaining net income would be distributed as follows: 7.0 percent to the Live Horse Racing Purse Supplement Fund and 7.0 percent to the Live Greyhound Racing Purse Supplement Fund, which funds would be created by the bill; 1.5 percent remitted to the city and 1.5 percent to the county, or 3.0 percent to the county if the parimutuel licensee location is not in the city, and 1.0 percent to the Problem Gambling Grant Fund. At least 24.0 percent would go to the Kansas Education Opportunity Trust Fund.

Rules and Regulations

The Lottery Commission would be authorized to establish rules and regulations to govern management contracts, which include provisions for gamblers to place themselves on a self-exclusionary list,

and provisions to ensure the integrity of the gaming machines and finances.

Courts

The bill would require the plaintiff in any civil action challenging the constitutionality of the Act to file in the court a surety bond as approved and determined by the court to pay for economic damages to the state from delay of implementation of the Act. The decision of the district court would be subject to automatic appeal to the Supreme Court.

Abolishment of the Lottery

The bill would change the current statutory date for abolition of the Kansas Lottery to July 1, 2022.

Background

The Senate Committee on Ways and Means held meetings on Senate Bill 2 on June 21, 2005. The committee considered several draft versions of gaming bills before deciding on a final version (SB 2).

The bill would create a number of funds in the State Treasury, including: the Lottery Gaming Facilities Fund, the Video Lottery Revenues Fund, the Video Lottery Oversight Fund, the Live Horse Racing Purse Supplement Fund, the Live Greyhound Racing Purse Supplement Fund, the Greyhound Promotion and Development Fund, and the Kansas Education Opportunity Trust Fund.

The Video Lottery Revenues Fund would maintain separate accounts out of which each video lottery sales agent would be paid. Moneys from the Video Lottery Oversight Fund would be used to pay the expenses of the Kansas Lottery associated with the administration and enforcement of the Video Lottery Program. The Live Horse Racing Purse Supplement Fund and the Live Greyhound Racing Purse Supplement Fund would be used for the distribution as purse supplements in accordance with the rules and regulations of the Kansas Racing and Gaming Commission. The Greyhound Promotion and Development Fund would be used for the development, promotion, and

representation of the greyhound industry in Kansas. This fund would receive revenue through a voluntary greyhound purse checkoff program, which would deduct 2.0 percent from purses paid to kennels and greyhound owners that participate in the program.

According to the Kansas Racing and Gaming Commission, the expansion of gaming at the parimutuel tracks could increase its FY 2006 operating expenditure by \$1,028,025 (\$804,365 for 20.0 FTE and \$224,025 for other expenses in FY 2006).

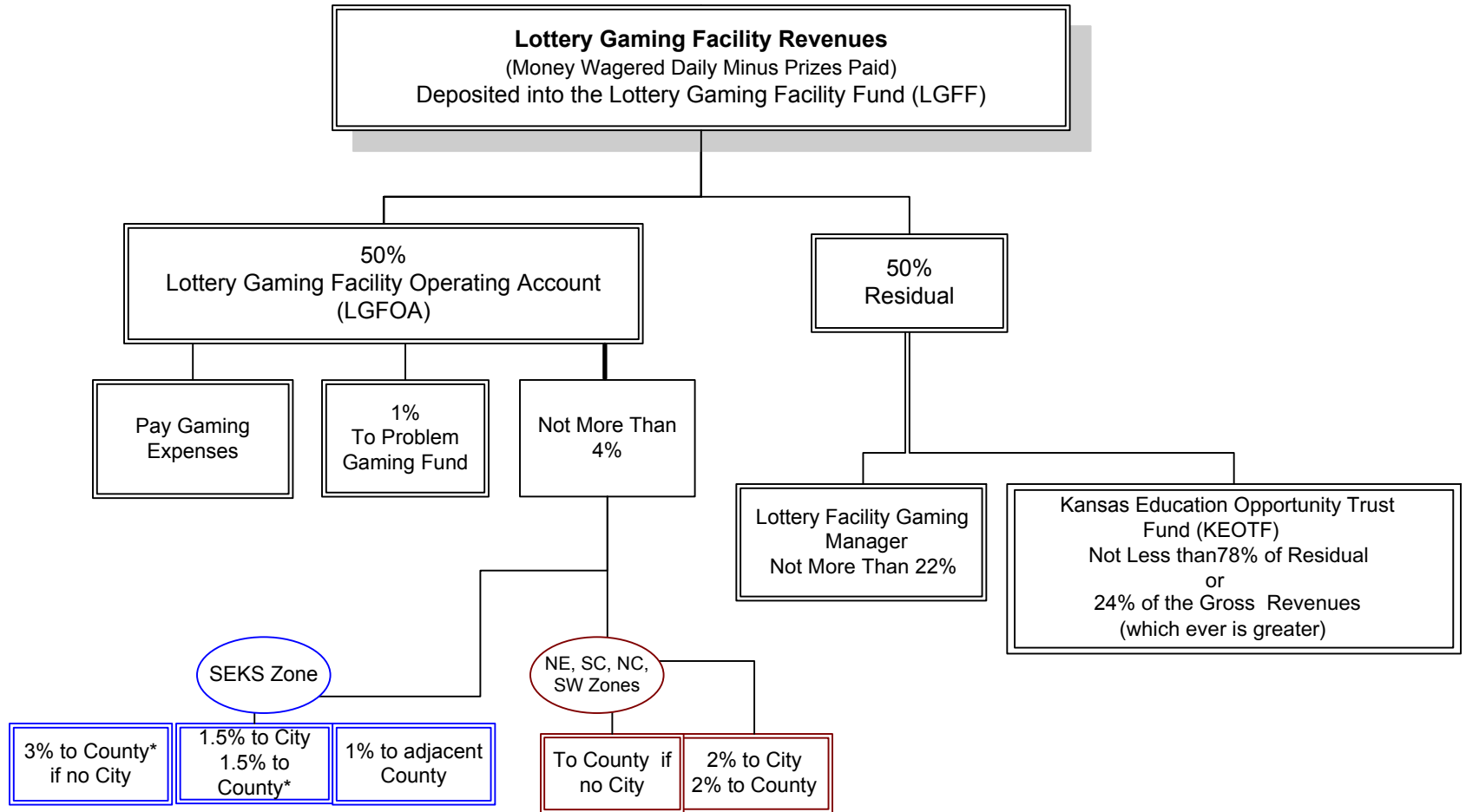
According to the Executive Director of the Kansas Lottery, the startup costs to implement the provisions of the bill would require an additional \$639,079 and 7.0 FTE positions in FY 2006.

The provisions of SB 2 would allow startup of expanded gaming operations in FY 2006, and the revenue fiscal note depends upon the negotiation of contracts to determine numbers of gaming machines and number and type of sites at which gaming may be conducted. If it is assumed that two casino sites with 2,000 gaming machines and three parimutuel sites with 5,000 video lottery terminals are approved, with prepayments of \$15,000 per machine and terminal, plus partial fiscal year gaming operations at the five sites, and after payment of prizes and statutorily required obligations, revenues could total between \$159.0 million and \$177.0 million to the Kansas Education Opportunity Trust Fund.

The Senate Committee on Ways and Means amended the bill to require a \$90 million investment in a casino for a destination development zone that is not designated in the northeast or south-central zones. The Committee also amended the bill to reduce the time limit for the accelerated payment from 180 days to 30 days. Finally, the Committee clarified the transfer of the 24.0 percent gross revenue from the VLTs to the Kansas Education Opportunity Trust Fund. The Committee deleted the incentive provisions in the bill.

Attached are diagrams A and B which illustrate the flow of casino gaming income distribution and parimutuel gaming income distribution.

Diagram A
Casino Gaming Income Distribution
 Senate Bill 2 — 2005 Special Session



* County where casino facility is located.

Diagram B
Parimutuel Gaming Income Distribution
 Senate Bill 2 — 2005 Special Session

