

March 3, 2011

The Honorable Pete Brungardt, Chairperson
Senate Committee on Federal and State Affairs
Statehouse, Room 136-E
Topeka, Kansas 66612

Dear Senator Brungardt:

SUBJECT: Fiscal Note for SB 174 by Senate Committee on Federal and State Affairs

In accordance with KSA 75-3715a, the following fiscal note concerning SB 174 is respectfully submitted to your committee.

SB 174 would amend the Kansas Expanded Lottery Act to allow a veterans service organization (VSO) to operate, on behalf of the State of Kansas, one electronic gaming machine per 50 members rounded up to the nearest 50 members. The bill defines a VSO as any not-for-profit tax exempt organization which is devoted to providing services to military veterans. All net income from the electronic gaming machines would be used by the VSO to provide service programs to veterans. The Kansas Lottery would be allowed to charge a service fee to the VSO to offset certain costs incurred for the inspection of the electronic gaming machines and the review of how proceeds from the machines were used. The Kansas Lottery would also have the authority to adopt rules and regulations to implement the bill.

The Kansas Lottery indicates SB 174 would require additional staff to inspect electronic gaming machines and to review the use of money generated by the machines at the VSO to ensure that the proceeds are being used to provide veterans service programs. However, without knowing the number of facilities that would operate electronic gaming machines, the number of electronic gaming machines that would operate at each facility, and when the facilities would begin operation, the Kansas Lottery is unable to make a precise estimate of its gaming related expenses. The Kansas Lottery and the Kansas Commission on Veterans Affairs are unable to estimate the amount of net revenue that would be generated from electronic gaming machines located at VSOs; however, all of the net revenue would be used by the VSO to provide veterans with service programs. The State of Kansas would not receive any of the net revenue from electronic gaming machines located at VSOs. The Kansas Commission on Veterans Affairs indicates the bill would have no fiscal effect on its operations.

The Kansas Lottery indicates that allowing gaming machines to operate at VSOs would reduce revenue from the existing state-owned and operated gaming facilities. However, a reliable estimate of the amount of revenue that would be reduced as a result of SB 174 cannot be

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made without a detailed market study. Under current law, it is estimated that state-owned gaming facilities will generate a total of \$82.0 million in gaming revenue in FY 2012, which will be distributed as follows: the Expanded Lottery Act Revenues Fund (ELARF) is estimated to receive \$18,040,000, gaming facility managers are estimated to receive \$59,860,000, cities and counties where gaming facilities are located will receive a total of \$2,460,000, and the Problem Gambling and Addictions Grant Fund will receive an estimated \$1,640,000. It should be noted the Governor's budget recommendation is to transfer all monies in the ELARF to the State General Fund.

The Kansas Lottery also indicates that the state is prohibited from designating additional areas of the state where gaming facilities are authorized until July 1, 2032. If it is determined that SB 174 violates this provision, the state would be required to refund privilege fees from already selected gaming facility managers plus 10.0 percent interest. Currently, the state has received \$55.5 million in privilege fees from three gaming facility managers and it is estimated that interest payments would require an additional \$4.5 million. Any fiscal effect associated with SB 174 is not reflected in *The FY 2012 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", written in a cursive style.

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Stephen Durrell, Lottery
Don Cawby, KRGC
Kafer Peele, Veterans Affairs