

January 27, 2015

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

Dear Senator Ostmeyer:

SUBJECT: Fiscal Note for SB 61 by Senate Committee on Federal and State Affairs

In accordance with KSA 75-3715a, the following fiscal note concerning SB 61 is respectfully submitted to your committee.

SB 61 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 SGF	FY 2015 All Funds	FY 2016 SGF	FY 2016 All Funds
Revenue	--	--	\$3,000,000	\$3,000,000
Expenditure	--	--	--	--
FTE Pos.	--	--	--	--

The Kansas Lottery estimates that SB 61 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.

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 SB 61 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

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