



Terry P. Presta
Executive Director

Sam Brownback
Governor

**Testimony Before
The House Committee on Federal and State Affairs
House Bill 2517
February 15, 2018**

Terry Presta
Executive Director
Kansas Lottery

Mr. Chairman and Members of the Committee:

Thank you for your consideration of House Bill 2517. Most provisions of this bill are identical to the bill introduced by the Lottery last year (HB 2313) with some items added at the committee levels, as noted below. HB 2313 passed both chambers by wide margins, but was vetoed by Governor Brownback.

HB 2517 would amend K.S.A. 2017 Supp. 74-8723 of the Kansas Lottery Act, which is the sunset statute that abolishes the Kansas Lottery, the office of executive director of the Kansas Lottery, and the Kansas Lottery commission on July 1, 2022. The extension would expire in 2037. It also would amend K.S.A. 2017 Supp. 74-8702 to authorize the use of electronic product dispensers (also known as vending machines) to dispense Kansas Lottery products at select Lottery retailer locations. Provisions added to the original text of HB 2313 (and carried over this year into HB 2517) include voiding lottery tickets purchased by minors, expanding the state's set-off program to include facility managers with state-owned and operated games, and permitting the use of instant bingo ticket vending machines by certain charitable gaming entities.

Extend the Sunset of the Kansas Lottery Act

Extending sunset of the Kansas Lottery Act to 2037 would strengthen the Lottery's ability to negotiate long-term contracts with vendors, especially with those who must make significant financial investments at the beginning of the contract.

For instance, the Lottery recently issued a Request for Proposals for new gaming and back office systems and a contract has been awarded. The Lottery anticipates the vendor will potentially invest \$30 to \$35 million dollars before the new systems are online and the Lottery begins to pay the vendor. The 2022 sunset on the Lottery Act would fall in year four of the ten year contract.

Although this contract has now been awarded, in general the Lottery's negotiating position on this and similar long-term contracts is weakened because of a vendor's uncertainty that the sunset of the Lottery may occur prior to expiration of its contract with the Lottery and/or before the vendor has even recovered its initial upfront investment. This strengthened position for the Lottery and added comfort level for vendors gained from eliminating the sunset could translate into reduced operational expenses and other costs for the Lottery over the long term.

Additionally, the Lottery already has contractual obligations which extend past the current sunset dates. Prime examples include the Expanded Lottery Gaming Facility Contracts which will expire between 2024 and 2032.

Allow Electronic Dispensers

Once fully implemented, conservative estimates project the use of electronic dispensers in Kansas would initially increase lottery sales by \$25 to \$30 million annually, increase retailer commissions by \$1.3 to \$1.5 million annually, and increase transfers to the state by \$8 to \$10 million annually.

As an industry best practices standard, 38 out of 44 U.S. lotteries including Missouri, Oklahoma and Colorado have used electronic dispensers for years to deliver and sell their lottery products. The 2016 Efficiency Review by Alvarez & Marsal recommends the Kansas Lottery be allowed to invest in and install electronic dispensers.

The Lottery is frequently asked by its lottery retailers if such dispensers are available in Kansas because they want a better way to track inventory, sales, to reduce customer wait times and specifically labor costs. Lottery retailers who have locations in other states where electronic dispensers are used report better lottery sales by 30% to 50% and have cut their lottery labor costs in half.

The dispensers also would improve the delivery of lottery instant scratch and draw games to lottery players as they would serve as another point of purchase location in a lottery retail location. This additional point of purchase is especially critical during times of high jackpots when casual or infrequent players want to play, sometimes jamming sales lines to the frustration of our retailers. Sales and transfers grow at a much quicker pace in states with electronic dispensers.

And finally, it is important to note this bill does not "expand" the reach of the Kansas Lottery, but simply allows the Lottery to implement an industry best practice and further modernize its operations to become more efficient and effective in today's business environment. Furthermore, this change has nothing to do with the Kansas Expanded Lottery Act and that act remains untouched by these requested changes.

Voiding Lottery Tickets Purchased by Minors

As mentioned, provisions were added to last year's bill (HB 2313) making any lottery ticket purchased by a person under 18 years of age null and void. The Lottery has no objection to these provisions.

Set-Off of Prizes

Also added to last year's bill was language expanding the state's set-off program to facilities offering state-owned and operated games (i.e., the lottery gaming facilities and racetrack gaming facilities, should any of the latter ever become operational again). If a prize won at one of those facilities triggers the issuance of an IRS form W-2G, then the winner must first be checked against the state's set-off records. The language contained in the bill was negotiated between the Lottery and the various interested parties over the past several years and was previously contained in another bill. The Lottery has no objections to these provisions.

Instant Bingo Vending Machines

Lastly, the Lottery's bill from last year was amended to add provisions requiring the Lottery to purchase or lease no more than two "instant bingo vending machines" for use by each nonprofit organization licensed under KSA 75-5171, et seq. (the Kansas Charitable Gaming Act). The Lottery has no objection to, and would welcome, nonprofit organizations utilizing such vending machines; however, the Lottery has serious concerns about the Lottery having any role therein. The Lottery has no nexus to, involvement with, or legal authority over the Kansas Charitable Gaming Act or the nonprofit organizations covered by that Act. The Lottery is of the opinion any such authorizations, to the extent any are needed, should be granted to the administrator of the Kansas Charitable Gaming Act.

Again, thank you Chairman Barker and Committee Members for consideration of House Bill 2517.

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Lottery Ticket Vending Machines

As an industry best practices standard, 38 out of 44 U.S. lotteries including Missouri, Oklahoma and Colorado have used electronic dispensers for years to deliver and sell their lottery products.

- **State Benefits:** Grows Player Base; \$30+ M increase in annual sales; \$10+ M increase in annual state transfers (FY19: \$4M FY20: \$8M)
- **Retailers Benefits:** Increase \$1.3 - \$1.5 M in annual retailer profit; Reduced lines, labor, and loss; Enhanced retailer inventory controls/accounting
- **Player Benefits:** Player convenience; User-friendly and secure
- **Implementation Plan**
 - Lottery may purchase/lease/add vending machines to existing vendor contract
 - 4-6 months to begin installation, 1-2 years to complete
 - 300-400 machines at grocery stores, convenience stores and social environments
 - Machines will be located in line of sight of customer service counters so retailers can monitor machines; disable them remotely
 - Retailer/Clerk Training
 - Lottery Security will conduct retailer follow-up site visits and inspections

