

March 31, 2014

The Honorable Steve Brunk, Chairperson  
House Committee on Federal and State Affairs  
Statehouse, Room 285-N  
Topeka, Kansas 66612

Dear Representative Brunk:

**SUBJECT:** Fiscal Note for HB 2472 by House Committee on Federal and State Affairs

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2472 is respectfully submitted to your committee.

HB 2472 would amend the Kansas Expanded Lottery Act. The bill would allow an additional lottery gaming facility, or destination casino, to be approved in the new north central gaming zone, which includes Geary County. The bill would reduce the minimum investment required for a manager of a lottery gaming facility in the southeast gaming zone from \$225.0 million to at least \$50.0 million and would establish a minimum investment amount for the new north central gaming zone to at least \$50.0 million. The privilege fee for the southeast gaming zone would also be reduced from \$25.0 million to \$5.5 million and the privilege fee for the north central gaming zone would be set at \$5.5 million. Any privilege fees that are paid by potential managers in the southeast and north central gaming zones would be nonrefundable unless the lottery gaming facility management contract is not approved by the Lottery Gaming Review Board or the background investigation is not approved by the Kansas Racing and Gaming Commission. Additionally, the bill would allow the Expanded Lottery Act Revenues Fund (ELARF) to be used for deferred maintenance at state universities.

The bill would also increase, from 0.5 to 5.0 percent, the level of ownership in gaming facility managers and those who propose to provide gaming-related goods or services to the gaming facility to determine who would be required to undergo a background investigation by the Kansas Racing and Gaming Commission. The bill adds provisions requiring background investigations of officers, directors, key employees and 5.0 percent owners of these companies, if publicly traded. However, the bill would require the Executive Director of the Kansas Racing and Gaming Commission to develop a procedure for the waiver of background requirements for any institutional investors, such as mutual funds.

HB 2472 would not require additional staffing or expenditures by the Kansas Racing and Gaming Commission, the Kansas Lottery, or any other state agency unless a contract with a lottery gaming facility manager is approved by the Kansas Lottery and a background investigation is approved by the Kansas Racing and Gaming Commission. The proposed changes to the privilege fee amounts, minimum investment levels, and locations of possible gaming zones may encourage potential gaming facility managers to submit proposals for the southeast and north central gaming zones. The Kansas Lottery 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 HB 2472 violates this provision, the state would be required to refund privilege fees from already selected gaming facility managers plus a compounded annual interest rate of 10.0 percent. Currently, the state has received \$55.5 million in privilege fees from three gaming facility managers and it is estimated that interest payments would be at least \$23,650,000 presumably to be paid from the State General Fund.

The Kansas Lottery indicates that it would need to hire between two and three new employees for each new gaming facility that would open as a result of this bill. However, without knowing the size of each proposed facility and when each facility would open, the Kansas Lottery is unable to make a precise estimate of its gaming related expenses. The Kansas Lottery indicates that when it has negotiated contracts with gaming facility managers, it has required that all of its gaming related expenses be reimbursed by the manager. Direct gaming expenses are billed directly to the specific gaming facility manager and indirect expenses are prorated to all managers.

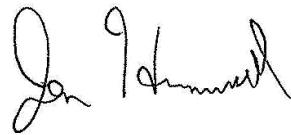
The Kansas Racing and Gaming Commission indicates that it would need approximately \$1.1 million and 16.00 FTE positions for the annual costs to regulate each new gaming operation that is approved. Start-up costs of approximately \$175,000 for each gaming facility would also be needed for expenses, such as background investigations, licensing equipment, software licenses, computer equipment, furniture and supplies, and other expenses that would be associated with opening this facility. Each new gaming facility would be billed for all direct costs at the facility and would pay a portion of indirect costs for all general gaming regulatory operational expenses.

The Kansas Racing and Gaming Commission indicates the Lottery Gaming Facility Review Board is responsible for reviewing each applicant in each gaming zone and selecting the lottery gaming facility manager in each gaming zone that will provide the highest economic benefits to the State of Kansas. The previous costs associated with reviewing and selecting managers by the Lottery Gaming Facility Review Board ranged from approximately \$750,000 to \$1,550,000. The Kansas Racing and Gaming Commission indicates that it is unable to provide a precise estimate of the costs associated with reviewing applications from the southeast or north central gaming zones because the costs would vary depending on the number of applications and if one or more applications were received from each of the gaming zones that are allowed under the bill.

The Department for Aging and Disability Services indicates that an additional gaming facility would likely increase demand for services provided by its Problem Gambling Program. The Department indicates that the amount of additional spending would be proportional to current spending levels for problem gambling and addiction services.

A reliable estimate of the revenue that might be generated as a result of HB 2472 cannot be made without a detailed market study, which would include an estimate as to when the facility would be operational, the location of the facility, and the size of the gaming facility. The bill would allow the Board of Regents to receive money from the ELARF for deferred maintenance expenditures; however, the amount would be determined by an appropriations bill or other legislation. Any fiscal effect associated with HB 2472 is not reflected in *The FY 2015 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Jon Hummell". The signature is written in a cursive style with a large initial "J" and "H".

Jon Hummell,  
Interim Director of the Budget

cc: Stephen Durrell, Lottery  
Brandi White, KRGC  
Melissa Wangemann, KAC  
Larry Baer, LKM  
Kelly Oliver, Regents  
Faith Loretto, KPERS