



KANSAS

KATHLEEN SEBELIUS, GOVERNOR

April 23, 2007

The Honorable Dwayne Umbarger, Chairperson
Senate Committee on Ways and Means
Room 120-S, Statehouse

and

The Honorable Sharon Schwartz, Chairperson
House Committee on Appropriations
Room 517-S, Statehouse

Dear Senator Umbarger:

I offer the following changes to the budget of the Kansas Racing and Gaming Commission as Governor's Budget Amendment No. 3.

Kansas Racing and Gaming Commission

1. Expanded Lottery Act Regulation

I amend my budget to create a new Expanded Lottery Act Regulation Division in the Kansas Racing and Gaming Commission as a result of the passage of the Kansas Expanded Lottery Act (2007 SB 66). This division will be responsible for regulating lottery gaming facilities and racetrack gaming facilities, including the oversight of internal controls and security, background checks, and auditing revenues. The act requires lottery and racetrack gaming facility managers to pay for the costs of oversight and regulation. However, the Commission will incur expenses of the Lottery Gaming Facility Review Board and other initial regulatory expenses before managers are selected and before they are able to reimburse the Commission for its expenses.

I amend my budget to recommend that the newly created Expanded Lottery Act Regulation Fund in the Kansas Racing and Gaming Commission receive a \$5.0 million loan from the State General Fund to finance the initial expenses of this division. Once the gaming facility managers are selected, they will be assessed all of the costs of regulation, and the State General Fund loan will be repaid with interest. The Commission expects to pay back the loan by the end of FY 2008. This action will have no net effect on the State General Fund.

The expenditures and number of new FTE positions that will be required for this new division will primarily be dependent on when each gaming facility becomes operational. A number of factors will have an effect on when these facilities will open, including the approval of the electors of each county where the facilities are located, the construction or remodeling of gaming facilities, and possible litigation. Because these factors are unknown, the Kansas Racing and Gaming Commission will need flexibility at the start in order to perform its regulatory mission. The best estimate at this time is that the Commission will incur expenses of approximately \$5.0 million in regulating this industry in FY 2008; however, this estimate will need to be adjusted by the 2008 Legislature as more information becomes available. I also recommend allowing the Commission to fill up to 25.00 FTE positions that are authorized in SB 66 to implement, administer, and enforce the Kansas Expanded Lottery Act.

I also recommend the creation of several special revenue funds that are required by SB 66 to allow the Commission to perform its new responsibilities. In the Racing and Gaming Commission, the following funds will be established: Expanded Lottery Act Regulation Fund, Live Horse Racing Purse Supplement Fund, Live Greyhound Racing Purse Supplement Fund, and Greyhound Promotion and Development Fund. I recommend creating the Lottery Gaming Facility Manager Fund, Expanded Lottery Act Revenues Fund, and Expanded Lottery Receipts Fund in the Kansas Lottery's budget. In SRS, I recommend that the Problem Gambling Grant Fund be renamed the Problem Gambling and Addiction Fund.

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>--</u>	<u>5,000,000</u>
All Funds	\$ --	\$ 5,000,000
FTE Positions	--	25.00
Non-FTE Unclassified Permanent	<u>--</u>	<u>--</u>
Total Positions	--	25.00

Sincerely,

Kathleen Sebelius
Governor of the State of Kansas