

AUDIT PROPOSAL

Reviewing Kansas's Sports Wagering Revenue Structure and Problem Gambling Services

SOURCE

This audit proposal was requested by Representative Francis Averkamp.

BACKGROUND

In 2018, the federal Supreme Court struck down a law that made sports wagering illegal across the states. Following that ruling, 33 states had authorized sports wagering by the fall of 2025. The Kansas Legislature legalized sports wagering in 2022 by amending the Lottery and Expanded Lottery Acts. Specifically, House Substitute for SB 84 allowed retail and mobile sports wagering by allowing each of the 4 state-owned casinos to contract with up to 3 mobile platforms (e.g. DraftKings, FanDuel). As of September 1, 2022, all 4 casinos negotiated amendments to their existing casino management contracts to provide sports wagering.

The Kansas Lottery and Kansas Racing and Gaming Commission share various duties to manage and oversee sports wagering. For example, the Lottery must approve the platforms, and create rules and regulations for the management contracts, confidentiality, and other components. The Lottery also is charged to receive, certify and remit various revenues to the State Treasurer. The Kansas Racing and Gaming Commission must, among other things, conduct background investigations of platform providers and create a voluntary exclusion program. This program allows individuals who struggle with gambling problems, to ban themselves from casinos and online betting platforms.

In fiscal year 2025, Kansas's sports wagering net revenue (after prize payouts, free play and promotion deductions, and federal excise tax) was \$174.5 million. The law specifies 90% (\$157 million in fiscal year 2025) of the revenues to go to the 4 casinos, and the remaining 10% (\$17.5 million in fiscal year 2025) to go to the state. The law also specifies the state revenues to be allocated to 4 funds or purposes, as follows:

- \$750,000 to the White Collar Crime Fund (paid before other distributions)
- 80% to the Attracting Professional Sports to Kansas Fund (\$13.4 million in FY 2025)
- 18% to the State General Fund (\$3 million in FY 2025)
- 2% to the Problem Gambling and Addictions Grant Fund (\$334,722 in FY 2025)

Based on data from SportsHandle, Kansas ranked 29th of 33 states in the amount of revenue the state received per \$1 million wagered since inception.

Legislators expressed concerns about the sports wagering formulas established in 2022 and want to know how the Kansas City Chiefs STAR bonds project would be affected if the statutory sports wagering formulas were changed. Legislators also are concerned that the state is experiencing growing social problems from allowing sports wagering.

AUDIT OBJECTIVES AND TENTATIVE METHODOLOGY

The audit objectives listed below are the questions we would answer through our audit work. The steps listed for each objective convey the type of work we would do. These may change as we learn more about the audit issues.

Objective 1: What impact would changes to the sports wagering funding structure have on the projected debt service coverage ratios for the Kansas City Chiefs STAR bonds project? Our tentative methodology would include the following:

- Review the Kansas Constitution, statutes, and other relevant documents to understand how Kansas legalized sports wagering and what structure was set up. Also review 2024 HB 2001 to understand the legislative authority created for the STAR Bond program to authorize projects involving major sports complexes.
- Review Kansas sports wagering revenues from the Kansas Lottery for the past 2 fiscal years to understand the net revenue disbursements.
- Interview Department of Commerce officials and other stakeholders and review any financing agreements and other applicable documents to understand how lottery and sports wagering revenues are related to how the Kansas City Chiefs STAR bonds project is going to be financed.
- Review relevant accounting information to determine the amount of lottery revenues (e.g. traditional lottery, lottery vending machines, sports wagering) that have been transferred to the Attracting Professional Sports to Kansas Fund since 2022.
- Interview Commerce, Kansas Lottery officials, legal staff, and other stakeholders to understand what legal, timing, or other issues the state would face if the legislature changed the funding formula and anticipated revenues flowing into the Attracting Professional Sports to Kansas Fund. As part of that work, ask officials about any suggestions they have to address those issues.

Objective 2: Does Kansas provide types and levels of problem gambling services that align with best practices? Our tentative methodology would include the following:

- Review the Kansas 2025 gambling survey and other studies to learn about the prevalence and trends of problem gambling in Kansas since sports wagering was authorized in 2018.
- Interview officials from the Kansas Department for Aging and Disability Services, Kansas Racing and Gaming Commission, and other agencies as applicable, to identify and summarize what state-level services Kansas offers to combat problem gambling, and specifically online gambling problems if possible.
- Gather and analyze expenditure data for state-level services to help individuals with gambling problems over the past 5 years. As part of that work, learn how those services are funded, and determine whether state expenditures for combatting problem

gambling have kept pace with gambling revenues the state received over that same time period.

- Conduct research (e.g. National Council on Problem Gambling) to identify recommended best practices for types and levels of traditional and online problem gambling programming for consumer protection (e.g. help line accessibility, no-cost treatment availability, sufficient counselors or clinical support, voluntary self-exclusion programs). As part of that work, learn what specific risks exist with online gambling such as sports wagering, and what types of services or service categories are most effective to specifically combat (online) problem gambling based on evidence-based research.
- Interview and gather applicable usage information from state officials and service providers to determine whether various available services appear to cover Kansans' demand (in total and geographic distribution if possible). As part of this work, compare Kansas' offerings to the levels and types of services that best practices recommend to determine if the state is effectively managing the risk of online gambling problems.
- For identified issues with service shortages or service inefficacies, specific to online gambling if possible, talk with stakeholders to understand possible reasons, and ask their input towards potential solutions for identified issues.

ESTIMATED RESOURCES

We estimate this audit would require a team of **3 auditors** for a total of **4 months** (from the time the audit starts to our best estimate of when it would be ready for the committee).