



Senate Fiscal Agency
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BILL



ANALYSIS

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House Bill 4662 (as reported without amendment)
Sponsor: Representative Susan Grimes Munsell
House Committee: Regulatory Affairs
Senate Committee: Local, Urban, and State Affairs

Date Completed: 4-28-95

RATIONALE

The Lottery Act requires that, "as nearly as is practicable", 45% of the total annual revenue from the sale of lottery tickets be paid out as prizes to winners. Reportedly, this level of payout may put the State's lottery games at a competitive disadvantage in the gaming marketplace because other games have higher payouts. Casinos, for instance, apparently have payout rates of about 90% on some of their games. Bureau of State Lottery (BSL) officials also contend that states with higher, administratively flexible payout rates have been able to increase lottery ticket sales, thereby increasing revenue to those states. The BSL estimates that setting 45% of total annual lottery revenue as a minimum level for payouts, instead of a target, would increase lottery ticket sales substantially, resulting in increased revenue for Michigan's School Aid Fund.

CONTENT

The bill would amend the Lottery Act to specify that, as nearly as practicable, not less than 45% of the total annual revenue accruing from the sale of lottery tickets or shares would have to be apportioned for payment of prizes to the holders of winning tickets or shares.

MCL 432.12

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

By allowing a bigger share of lottery ticket revenues to be paid out in prizes, the bill would enable the BSL to make its games more attractive to the public, which, in turn would generate more money for Michigan's schools. The bill would give the BSL the flexibility to set different payout levels for different games, which, the Bureau claims, would particularly help sales of instant lottery tickets. According to the BSL, states with flexible, and higher, payout levels have greater annual per capita sales than does Michigan. While states with a legislative cap on payouts, like Michigan, tend to have lower revenue from instant ticket sales, those states that have administrative flexibility in setting the payout level evidently have collected more revenue. Michigan, for instance, received \$44 per capita in instant ticket sales in 1994, while Ohio, Texas, and Massachusetts, each of which has administrative flexibility in setting payouts, received \$81, \$81, and \$276, respectively. The BSL estimates that, despite paying out a larger percentage of revenue in prize money under the bill, the State would gain enough revenue from net profits of the lottery operation to increase payments from the lottery to the School Aid Fund. The bill thus would benefit lottery players, lottery agents (who collect a commission on sales revenue), and the State's schools.

Response: The State should not be involved in the gaming business in the first place, so increasing prizes (and the enticement for people to gamble) and expanding ticket sales would not be desirable.

Legislative Analyst: P. Affholter

FISCAL IMPACT

According to the Bureau of State Lottery, the bill would increase lottery ticket sales by \$500 million to \$700 million per year. The revenue to the School Aid Fund would increase by \$71 million to \$121 million.

Fiscal Analyst: L. Nacionales-Tafoya

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.