



**House  
Legislative  
Analysis  
Section**

Washington Square Building, Suite 1025  
Lansing, Michigan 48909  
Phone: 517/373-6466

**AMEND BINGO ACT**

**House Bill 4426 (Substitute H-3)**  
**First Analysis (5-17-89)**

**Sponsor: Rep. Joe Young, Jr.**  
**Committee: State Affairs**

**RECEIVED**

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***THE APPARENT PROBLEM:***

Currently, the Bureau of State Lottery is the exclusive supplier of break-open ("charity game") tickets, buying the tickets from a vendor through a bid process. Licensed suppliers then buy tickets from the bureau at a price that includes a fee to the supplier, and resell the tickets to licensed nonprofit organizations, recovering their fee at this time as well as retaining a handling fee which depends on the resale value of the ticket. For many years licensed suppliers have wanted to change this program, where the state is the exclusive supplier, to a "free market" system. In response, the bureau has proposed some changes in the break-open ticket program in consultation with the Michigan Bingo Vendors Association, as well as proposing a number of other changes in the bingo act.

***THE CONTENT OF THE BILL:***

The bill would amend the Traxler-McCauley-Law-Bowman Bingo Act to make a number of technical and substantive changes. The bill would amend the act to:

- Take the lottery bureau out of the ticket distribution business and require that all charity game tickets (which would add "jar game" tickets to the present "break open" tickets) sold by licensed organizations be bought from licensed distributors;
- Deposit excess revenues into the school aid fund, instead of the general fund;
- Create new, separate charity game ticket licenses for sale by qualified organizations on their club premises;
- Create a new "joint" bingo license and a new "holiday" bingo license (which would allow qualified organizations to hold one additional bingo game each year), both with higher prize payouts;
- Increase the number of millionaire parties ("Las Vegas nights") and special bingo events allowed each year;
- Allow raffles to be held at millionaire parties without a separate license, and allow separate raffle licensing from the millionaire party license;
- Allow fire, police, parks and recreation departments, emergency medical service units, and agencies for the aging, handicapped, and retired to be licensed;
- Exempt senior citizen recreational bingo from licensing;
- Allow a license waiver for one-time nonprofit fundraisers;
- Increase prize payout limits;
- Increase license fees;
- Increase penalties for violations.

**New and increased fees.** The bill would add new nonrefundable processing fees, new fees for manufacturers (\$5,000 initially and \$3,500 for renewal), for the new "holiday" bingo permit (\$10), for the new "joint" bingo license (\$350 a year), for the new separate charity game ticket license (\$50 a year), and for each distributor's sales office (\$1,500 a year). The bill also would increase existing fees:

	<u>Current fees</u>	<u>Proposed fees</u>
Raffle licenses	\$50/year	\$75/year
Millionaire parties	\$50/day	\$75/day
Regular bingo	\$55/year	\$75/year
Special bingo	\$25/day	\$75/day
Distributor	\$500/year	\$1,000/year
First location	\$300	\$1,000
Each add'l location	—	\$500

**Increased prize payouts.** The bill would increase prize payout limits for charity game tickets, for bingo, and for millionaire nights.

The bill would reduce the fee paid by the licensed organization and remitted to the bureau for each box of charity game tickets bought from a licensed distributor. Presently the fee is 20 percent of gross receipts; the bill would lower this to 10 percent and would increase the ticket prize payout from the current 60 percent to a proposed 65 percent. The minimum ticket price would be eliminated (only a maximum price of \$2 would be established), and the maximum prize which could be awarded on a single ticket would be increased from \$200 to \$250.

The value of prizes for the new holiday bingo would be increased from the current limit of \$2,000 to a proposed \$2,500. Joint bingo operations could award up to \$3,500 per occasion and up to \$1,000 a jackpot. The prize limit for a single regular weekly bingo game would be increased from the current \$25 to a proposed \$75. Further, the value of prizes awarded in one day of bingo or of a millionaire party would be increased from the present \$2,000 to a proposed \$5,000 (in addition, the existing prohibition against redeeming or converting a merchandise prize to cash at a licensed millionaire party would be eliminated).

**Increased penalties for violations.** Currently, violations of the act are misdemeanors punishable by a \$1,000 fine and six months in jail. The bill would increase the allowable fine to \$5,000 and the possible jail term to six months. In addition, the bill would create (a) a felony offense for misuse of proceeds in excess of \$100, with a fine of \$10,000 and 5 years' imprisonment and (b) a misdemeanor offense for hindering, obstructing or assaulting an employee of the bureau, with a fine of \$5,000 and 2 years' imprisonment, and (c) misdemeanor offenses for bingo players who cheat (and workers who help them in cheating) by altering cards or attempting to claim a prize for an invalid bingo (for violations involving less than \$100, a \$1,000 fine and 90 days imprisonment; for more than \$100, a \$5,000 fine and 2 years' imprisonment).

MCL 432.101a et al.

***FISCAL IMPLICATIONS:***

The Bureau of State Lottery estimates that the revenue from ticket sales under the proposed program would be \$6.6 million, up from the current \$1.2 million. Revenues from increases in license fees would generate an estimated

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**OVER**

\$480,000. Although additional staffing would be needed to supervise the free market ticket program (including the addition of three positions to start up the program and eight more to run it once it is fully operating), funding for the staffing would be fully paid from the program revenues. The eleven additional positions would have a projected annual cost of \$518,000, eight percent of the projected revenue. The bureau estimates that after 18 months the program would net more than \$3.5 million a year to the school aid fund. (5-5-89)

## **ARGUMENTS:**

### ***For:***

The state generated \$1.3 million in revenue from charity game ticket sales in fiscal year 1988. Only about 35 percent of the licensed organizations that could sell these tickets participate in the program, and sales figure are considerably below original projections. Ticket sales opportunities are restricted to licensed bingo games and Las Vegas nights ("millionaire parties"). States having "free market" ticket programs are far more successful, even with populations half the size of Michigan's (for example, the national average percentage of total gross gaming proceeds for break open tickets is 38.5, while in Michigan it is 2 percent).

Thus many people believe that the charity ticket program in Michigan, in which the state lottery bureau is the exclusive supplier of tickets, has generated only a fraction of the revenue that it might because in its present form it is too restrictive and requires too much involvement by the bureau in ticket acquisition and marketing. By allowing tickets to be sold on the free market and by increasing both the variety of games and the opportunities for licensed organization to sell tickets, the bill would result in more tickets being sold and thus more revenue to the state (the lottery bureau projects an increase in gross charity game ticket sales from \$11 million to \$225 million annually, with revenue to the state projected at \$6.6 million dollars 18 months after the program was implemented). Since the bill also would require that excess revenue be deposited in the state school fund, rather than the general fund (as currently is the case), the bill also could contribute significantly to the problem of school financing.

### ***For:***

Allowing the lottery bureau to waive license requirements for short-term events to allow fundraising by groups which are not technically qualified but which promote a worthy nonporofit cause would allow, for example, friends and relatives to hold one-time fundraisers for families who had been burnt out of their homes or who needed expensive medical treatment (such as organ transplants) that they couldn't otherwise afford.

### ***For:***

Raising the prize payouts, both for special holiday bingos and for joint bingo operations, would allow bingo operators in the state to better compete with Canadian and in-state native American bingo operations, which offer much higher prizes than is allowed under the state bingo act. At the same time, by exempting senior citizen recreational games (where prizes total \$100 or less and cards cost no more than 25 cents), the bill would relieve these recreational organizations from the current excessively burdensome requirements.

### ***For:***

The lottery bureau's license and enforcement program is required to be self supporting, and is funded solely out of license fees. License fees have not been increased since 1981, and the fee increase would better enable the bureau to carry out its licensing and enforcement activities. (In fact, the reason the bureau will have to add eleven new positions to fully implement the changes proposed in the act, instead of the eight that will be necessary to run the program once it is fully running, is because the bureau is currently understaffed due to budget constraints.)

## **POSITIONS:**

The Bureau of State lottery supports the bill. (5-15-89)