



**House
Legislative
Analysis
Section**

Olds Plaza Building, 10th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

**ALLOW MULTI-STATE
LOTTERY GAMES**

**House Bill 4484 (Substitute H-1)
First Analysis (9-21-95)**

**Sponsor: Rep. Gerald Law
Committee: Regulatory Affairs**

THE APPARENT PROBLEM:

According to the Bureau of State Lottery, lotto sales are "jackpot driven" -- that is, the larger the jackpot, the higher the sales. Historically, for example, in Michigan large Lotto jackpots have driven up sales of other lottery games. The same is true for large, multi-state lottery games which, because of their large population bases, are able to generate huge jackpots. According to the Bureau of State Lottery, "Powerball" is the largest multi-state lottery game in the United States, with a player population base of over 50 million people in 19 states (plus the District of Columbia) and jackpots that have gone as high as \$110 million. (See BACKGROUND INFORMATION.) However, because Michigan cannot currently participate in such multi-state games, the state -- and specifically the state school aid fund -- is unable to benefit from the revenues generated by games such as Powerball. In fact, by being unable to participate in Powerball the state actually loses revenues because revenues for Michigan on-line lottery games (such as Lotto, Daily 3 and Daily 4, Cash5 and Keno) in Michigan counties bordering states that do have Powerball reportedly have been flat or in decline since the creation of Powerball. At the request of the Bureau of State Lottery, legislation has been introduced that would allow Michigan to participate in Powerball and other such multi-state lottery games.

THE CONTENT OF THE BILL:

The bill would amend the McCauley-Traxler-Law-Bowman-McNeely Lottery Act (Public Act 239 of 1972) to allow Michigan to participate in "joint enterprises," that is, multi-state lottery games. A "joint enterprise" would mean a lottery activity in which the Bureau of State Lottery participated, under a written agreement ("as executed by the commissioner"), with any other state, territory, or country ("or other sovereignty"). The state lottery itself would not be included in the definition of

"joint enterprise," and the bill would amend the existing definition of "lottery" or "state lottery" to specify that these terms would mean the lottery created under the act "and operated exclusively by or under the exclusive control" of the Bureau of State Lottery.

The bill would allow the commissioner of Michigan's state lottery to participate in multi-state lottery games (such as "Powerball") so long as he or she first determined that the game was designed "to produce the maximum amount of net revenues for the state consonant with the general welfare of the people." When existing rules or regulations governing a multi-state lottery game required their adoption, the commissioner could promulgate rules that incorporated the game's existing rules or regulations (as well as any subsequent changes or additions) by reference.

Prize money. As specified in Public Act 53 of 1995 (enrolled House Bill 4662), until January 1, 1999, not less than 45 percent of the total annual revenue from the sale of state lottery tickets must be paid out in prize money; after January 1, 1999, at least 45 percent of total state lottery revenues will have to be paid out in prizes. The bill would exempt multi-state lottery prize money from these provisions and instead specify that the amount of prize money (as a percentage of total annual revenue) from the sale of tickets or shares of any multi-state lottery game would be set by the written agreement under which Michigan participated in that game. Disposition of unclaimed prize money also would be subject to the joint participation agreement; however, to the extent that Michigan was entitled to any unclaimed prize money, that money would be deposited into the state school aid fund.

Revenue. Revenue generated by multi-state lottery ticket sales would be governed by the joint

House Bill 4484 (9-21-95)

enterprise participation agreement and would only be deposited in the state lottery fund if required by the agreement.

Penalties. Violations such as altering or counterfeiting a multi-state lottery ticket would be subject to the same penalties as violations under current law for the state lottery; a violator would be guilty of a felony punishable by up to five years in jail, a fine up to \$1,000, or both.

Information regarding prize winners. Personal information about multi-state lottery game winners (including names and addresses) could be disclosed to the extent allowed by the joint participation agreement. (The state lottery, through an exemption to the Freedom of Information Act [MCL 15.231 et al.], prohibits such disclosure for winners of \$10,000 or more.)

MCL 432.3 et al.

BACKGROUND INFORMATION:

Powerball. According to the Bureau of State Lottery, the largest multi-state lottery game in the United States is "Powerball." Powerball is operated by the Multi-State Lottery Association (MUSL), which was organized in September 1987. MUSL currently includes nineteen states (including Wisconsin, Indiana, Minnesota, and Kentucky) and the District of Columbia. Powerball has a population base of about 50 million people, so the jackpot levels build quickly and often exceed \$40 million. MUSL supervises the twice-weekly drawings that are conducted in Des Moines, Iowa (on Wednesday and Saturday evenings at 10:59 p.m. EST) and that are available for live broadcast through satellite transmission. MUSL also maintains general criteria that advertising for Powerball must meet, although actual advertising for Powerball is produced and paid for by each participating state.

Powerball tickets, which can be sold only by retailers licensed by member states, cost one dollar each and are produced by retailers "on line." Powerball winners are paid in installments over 20 years, with the largest jackpot ever won being \$110 million. In addition to the jackpot, players also receive cash prizes for various combinations of matches, ranging from one dollar to \$100,000.

The revenue that each state lottery receives for participating in Powerball is directly related to sales within that state. Each member lottery contributes to the prize pool and operational costs are proportionally based on total sales. Each state lottery keeps total sales, minus the prize pool and operational cost contributions.

FISCAL IMPLICATIONS:

According to the House Fiscal Agency, there would be a minimal cost for printing educational and promotional materials for the new game, while the agency estimates that increased sales due to larger jackpots will produce an increase in school aid fund revenue by approximately \$70-\$80 million a year. (9-19-95)

According to the Bureau of State Lottery, conservative estimates project the bureau would increase sales by \$200 million per year through participation in Powerball (even after factoring in the drop in sales of the current Michigan Lotto), which would result in a net per year increase in contributions to the school aid fund of approximately \$81 million. (9-11-95)

ARGUMENTS:

For:

Because multi-state lottery games such as Powerball have large population bases they are able to generate huge jackpots, and therefore increase player interest and generate higher sales. What is more, lottery sales outlets in Michigan counties bordering states (such as Illinois and Ohio) with larger player bases, or bordering states (specifically, Indiana and Wisconsin) with multi-state lottery games such as Powerball, have lost lottery customers and sales across these borders because of the larger jackpots offered in these out-of-state games. The Bureau of State Lottery reports that revenues from Michigan on-line lottery games have been flat or in decline since the creation of Powerball, and that Lotto sales for fiscal year 1994 declined a whopping 45 percent from fiscal year 1990, capping five years of sales declines. Since, moreover, on-line games are "planned purchase" games (that is, people go to retailers specifically to purchase this particular "product"), they result in customer visits -- and sales of non-lottery products -- that otherwise would not necessarily occur.

But in addition to generating interest in a new gaming "product," multi-state lottery games, with their huge jackpots, also drive up sales of other lottery games. According to the Bureau of State Lottery, states currently participating in Powerball are able to offer jackpots of \$50, \$70, or even \$100 million because of the large combined player populations. These huge jackpots not only increase player interest -- and thus sales -- in Powerball; in addition they also appear to drive up sales of other lottery games. So allowing Michigan to participate in Powerball not only should increase player interest and retail sales in "border" counties in Michigan; it should do so across the state and for all state lottery games.

Since the bill earmarks revenues from such multi-state lottery games for the state school aid fund, allowing Michigan to participate in multi-state lottery games -- and Powerball in particular -- will increase state lottery revenues and so increase state school aid fund revenues.

Against:

There are people who oppose the concept of the state being in the gaming business at all, and so who also would oppose any expansion of gaming opportunities in the state. They point, among other things, to the social costs of compulsive gamblers, both to themselves and their families. They also point to the fact that state-sponsored gambling is in fact a kind of regressive (if voluntary) tax: often it is the people with the least amount of discretionary income who buy various kinds of lottery tickets in the hope that they will win sums of money that they otherwise could never hope to see. Some people also question funding schools from such unreliable sources, let alone sending the message, however indirectly, to young people in school that it is luck, not education and hard work, that are more likely to lead to material success in life.

POSITIONS:

The Bureau of State Lottery supports the bill. (9-20-95)