

## REVISE BINGO ACT

### House Bill 4472 (Substitute H-1) First Analysis (4-27-99)

**Sponsor: Rep. James Koetje**  
**Committee: Gaming and Casino Oversight**

#### ***THE APPARENT PROBLEM:***

Charitable gaming, which includes bingo, raffles, and millionaire parties (also known as "Las Vegas nights"), has been an integral component of fund raising for civic, church, educational, fraternal, political, and service agencies and organizations for decades. Reportedly, over \$11,000,000 for charitable activities is generated by the approximately 1,550 bingos operated by nonprofit organizations in the state. However, according to a representative from the Bureau of State Lottery, Charitable Gaming Division, charitable gaming has been in a decline since 1992, with a loss in revenue of about \$20 million a year. Approximately 500 charitable bingo games went out of operation over the last several years primarily due to competition with casinos (both in- and out-of-state) and high-stakes Canadian bingos. Reportedly, in response to its own decline in attendance at bingo games after the Windsor casino opened, Canada established the Super Star Jackpot with payouts of over \$40,000. Super Star Jackpot Bingos in Sarnia and Windsor have further served to syphon patrons from Michigan charity games.

Adding to the problem of increased competition for entertainment dollars is that other funding for charitable activities -- such as federal, state, and corporate grants -- is on a decline. Many charities are therefore more dependent than ever on the revenues raised through bingo and other charity games. Some charities derive 26 percent or more of their annual operating revenue from bingos. Catholic Outreach in Flint is one illustration of how bingo can benefit a charity. In 1996, Catholic Outreach provided \$434,299 in direct assistance to over 10,000 needy families for groceries, utilities, rent, and other needs. In addition, the agency's St. Christopher's Program provided transportation to 300 children in Genessee County to out-of-county medical facilities for treatment at an additional cost of over \$25,000. Revenue from bingo accounted for 71 percent of Catholic Outreach's 1996 budget (the agency operates a bingo and also receives donations from other

churches from revenue raised through bingo). However, since overall bingo revenues have continued to decline, Catholic Outreach was forced to close for six weeks in early 1997 and closed earlier this year for two months due to a shortage of funding, leaving many families without a source for assistance.

Another concern is the practice in many nursing homes and senior centers to offer bingo games as a recreation for residents and members. Under existing laws, these games would still come under licensing and reporting requirements, even though they are not being used for fund raising and are not open to the general public. It has been suggested that the bingo laws be amended to exempt from regulation these recreational bingos conducted by nursing homes and senior centers.

Existing bingo operators and other nonprofit groups claim that they simply cannot survive under Michigan's antiquated bingo law and the increased competition for recreation dollars from casinos and Canadian bingo. To address these and other concerns, legislation has been proposed to amend the bingo and charitable gaming laws.

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

Currently, charitable gaming is regulated by the Traxler-McCauley-Law-Bowman Bingo Act and through administrative rules. House Bill 4472 would rewrite the laws governing charitable gaming by amending the Traxler-McCauley-Law-Bowman Bingo Act (MCL 432.101 to 432.120) and incorporating several provisions currently in the rules (with modifications). The bill would make a number of substantive changes, such as establishing new licenses for annual and special charity games, numeral games, bingo hall operators, and manufacturers of numeral game tickets; creating the Michigan Progressive Jackpot Bingo Game; increasing the number of bingo events and millionaire parties an organization may

conduct in a year; replacing the prize cap for millionaire parties with a \$15,000 cap on the money allowed to be taken in at the door; and exempting recreational bingo by senior citizens groups meeting certain criteria from licensure requirements. Other substantive changes, among many changes, are as follows:

Bingo. A distinction would be made between large bingo (a series of bingo occasions occurring on a regular basis with a total prize cap of \$2,000 per occasion and \$500 per game), small bingo (a \$300 total prize cap per occasion, \$25 per game), and special bingo (a single occasion or series of bingo occasions with the same prize limitations as large bingo). Annual license fees would be \$150 for large bingo and \$55 for small bingo. A qualified organization could be issued four (increased from two) special bingo licenses per calendar year at \$25 each. Organizations could hold more than one bingo license (but only one per day) and up to ten (increased from seven) licenses could be issued for a seven-day period at any one location (but only two for the same day at the same location). For example, a charity could hold from one to seven bingos in a week, but no more than one per day. The number of bingos that could be held at any particular location (such as a bingo hall, church, school, or fraternal lodge) would be increased from no more than one per day to up to ten in a week as long as no more than two bingos were offered on a single day. Therefore, a hall could offer two bingos on Friday, Saturday, and Sunday, the most popular days, and could conduct four more bingos Mondays through Thursdays. In addition, a person could be a chairperson for more than one bingo if the additional bingo licenses were granted to the same qualified organization. A licensee could sell charity game tickets or conduct a charity game in conjunction with a bingo without an additional license.

Further, the bill would create the Michigan Progressive Jackpot Bingo Game, a coverall game conducted in conjunction with a large bingo occasion, where the value of the prize would be carried forward to the next bingo occasion if no player bingoed in a predetermined number of allowable calls. A consolation prize not to exceed \$100 would be awarded on each occasion that no one bingoed in the predetermined number of allowable calls. With the lottery commissioner's approval, two or more charities could "link" with each other in conducting a Progressive Jackpot Bingo Game. The bill would regulate the conduct of play and prize disbursement. Prizes awarded for a progressive jackpot game would

be excluded from the \$2,000 prize cap for large bingos.

Millionaire parties. The \$2,000 prize cap would be eliminated and would be replaced by a \$15,000 cap on the amount of money that could be exchanged for imitation money or chips in one day of a millionaire party. An organization could obtain up to four (increased from two one-day licenses or one three-day license) millionaire party licenses annually, and a license could be issued for up to four consecutive days (up from three days). A license would cost \$50 per day. In addition to being allowed to conduct charity games and certain small raffles as provided under current law without having to obtain additional licenses, a millionaire party licensee could also conduct numeral games in conjunction with the millionaire party without an additional license. The value of raffle, charity game, and numeral game prizes would not be counted towards the \$500 individual prize cap. The bill would also remove the requirement that only games played against the house be allowed, opening up the possibility that additional card games, such as poker, could be added in the future.

Raffles. Organizations could apply for an unlimited number of small (less than \$500 in prizes) and large (more than \$500 in prizes) raffle licenses, but only one small raffle license could be issued for a location each day. License fees would be \$50 per drawing date for large raffles, and for small raffles, \$15 per one to three drawing dates and \$5 per drawing date for four or more drawing dates. A large raffle licensee could conduct a charity game or numeral game in conjunction with the large raffle without obtaining an additional license. Further, a qualified organization sponsoring a single gathering could conduct a raffle without obtaining a raffle license if there were no presale of tickets and if the total value of prizes awarded were \$100 or less.

Charity Games. An annual charity game license would be \$200 and would permit an organization to sell charity game tickets, also known as "jar tickets", year round, as opposed to only selling the tickets in conjunction with another licensed event. A special charity game license would be \$15 per day. ("Special charity game" is not defined in the bill.) A special charity game license could be issued for up to four consecutive days and an organization could get up to eight special charity game licenses per year. The commissioner would have to promulgate rules for the licensing, selling, and playing of charity games along

with establishing rules for financial record keeping. A charity game license would not be needed for charity games conducted in conjunction with a large bingo, millionaire party, or large raffle.

Numeral games. A numeral game would be defined as "the random resale of a series of numeral tickets by a qualified organization under a numeral game license or in conjunction with a licensed millionaire party or large raffle." A numeral game ticket would be a paper strip on which preprinted numerals were covered up. Uncovering the number would reveal if the purchaser had a winning ticket. License fees would be \$15 per day, and could be issued for up to seven consecutive days. The bill would regulate all aspects of play and establish specific reporting standards. Persons under 18 years of age would be prohibited from purchasing numeral game tickets, but could receive them as gifts and would be eligible to win a prize.

Miscellaneous provisions. Game records and all financial accounts relating to licensed events would have to be available for review by the lottery bureau for inspection. Under certain conditions, the commissioner could: 1) allow an individual or a group of individuals to conduct a special bingo, millionaire party, or raffle; and 2) waive one or more requirements for a qualified organization to be licensed to conduct a special bingo, millionaire party, or raffle. Further, many of the current provisions detailing the rule-making process would be deleted.

Senior bingo. Recreational bingo could be conducted by a senior citizens club, group, or home whose members were at least 60 years old without being licensed if the bingo were conducted solely for the recreation of the members and guests of the group and not used for fund-raising; only members and their guests and employees of the group or home participated in the operation of the bingo (and no one were compensated solely for working at the bingo); bingo cards were 25 cents or less; the total value of prizes awarded did not exceed \$100; and revenue from the bingo were used for prizes and to offset expenses in operating the bingo.

Bingo hall license. The bill would create a bingo hall license. A bingo hall license would expire at 12:00 midnight on the last day of February. If the bingo hall were rented by the licensee, and if the lease expired before the end of February, the license would expire

on the same day of the lease. The annual license fee would be \$50 multiplied by the number of large and small bingos scheduled to be held in a seven-day period. A licensee could add additional bingos (up to a total of ten for a seven-day period) by submitting a written request and \$50 for each additional bingo. For example, if at the time a bingo hall operator applied for a license, four charities had agreed to each hold one bingo a week, the license fee would be \$50 times four weekly bingos for a fee of \$200. If, after the license had been issued, three more charities wanted to each hold a weekly bingo, the hall owner would have to pay an additional \$150 (\$50 times three more weekly bingos). Further, a person with a bingo hall license, with the commissioner's approval, could elect to pay a fine in lieu of a license suspension for violations of the act.

Suppliers. Among numerous changes, a supplier's license would expire at 12:00 midnight on September 30 of each year. Performance bonds of at least \$50,000 and up to \$500,000 (increased from \$100,000) would have to be posted. Regulations pertaining to numeral games would be specified. A supplier, or a person residing in the same household, could not also be licensed to rent facilities for licensed events.

Manufacturers. The bill would create a license for a manufacturer (a person who manufactures numeral game tickets for sale to licensed suppliers). Annual license fees would be \$300, and a license would expire at 12:00 midnight on June 30 of each year. Only tickets approved by the commissioner could be distributed to state suppliers. Records supporting the sale of numeral game tickets to suppliers would have to be available for review by the lottery bureau for inspection and audit, and would have to be kept for not less than the calendar year in which the event takes place and an additional three years.

Penalties. In addition to current sanctions and penalties, the bill would permit the commissioner to summarily suspend a license for a period of 60 days or less pending prosecution, investigation, or public hearing. Further, a licensee whose license had been revoked could not apply for a new license for two years after the revocation, instead of one year as it is currently under the act.

Repeal. Section 7 of the act, which pertains to licenses for special bingos, would be repealed.

## **BACKGROUND INFORMATION:**

The bill is nearly identical to House Bill 4330 of the 1997-1998 legislative session. In addition, House Bill 4950 of the 1995-1996 legislation session, which would have amended provisions pertaining to Millionaire Parties, was enrolled but was vetoed by the governor. In his veto message, the governor noted that there was evidence of the need to restructure Michigan's charitable gaming laws rather than trying to fix the bingo act in a piecemeal manner.

## **FISCAL IMPLICATIONS:**

Under current law, all fees and revenues collected by the Bureau of State Lottery are earmarked to the state lottery fund. Administrative costs associated with the operation of charity games are then financed from the lottery fund. At the end of each fiscal year, all money, including interest, in the state lottery fund which is attributable to charity games is deposited in the general fund. According to information supplied by the House Fiscal Agency (HFA), the 1995 Annual Report of the Charity Gaming Division of the Bureau of State Lottery reported a gross revenue of \$9.3 million and expenses totaling \$2.7 million, with approximately \$6.7 million being deposited in the general fund. According to a representative from the Bureau of State Lottery, approximately \$8 million in excess revenue from charitable gaming was deposited in the general fund in 1998.

As House Bill 4472 would increase the number of various licenses that organizations could hold, the HFA reports that the bill is expected to increase state revenues by \$5 to \$6 million per year (assuming no additional administrative costs). The agency estimates that approximately \$45,000 could be generated by increased bingo license fees and allowing organizations to hold more than one bingo license; approximately \$23,000 would be generated by the increased number of millionaire party licenses an organization could hold; \$133,500 could be generated from the new charity game license fee, and approximately \$5.5 million per year could be generated from the bill's provisions to allow organizations to sell charity tickets year round; and new licenses for operating numeral games, manufacturing numeral games, and operating bingo halls could provide an additional \$36,000 per year.

The bill would have no fiscal impact on local governments. (4-21-99)

## **ARGUMENTS:**

### **For:**

According to industry members, charitable gaming has taken a serious hit from the expansion of casino gaming in Michigan, neighboring states, and Canada. Unlike casinos, which are for-profit entities, charitable gaming is conducted by nonprofit organizations and proceeds are used for charitable purposes. In a day when nonprofits are competing for a dwindling supply of state, federal, and corporate grant monies, many organizations rely heavily on revenues from bingo, millionaire parties (also known as Las Vegas parties), and charity games to fund their projects. Charitable gaming revenues fund social service agencies, wildlife rehabilitation centers, scholarship funds, private and public school projects and budgets, medical research, aid to the poor, and a host of other worthwhile causes. However, bingos and Las Vegas parties, with individual prize caps of \$500 and total prize caps of \$2,000 per event, are no match for casino payoffs or Canadian bingos with jackpots of \$40,000 or more.

The bill would make a number of important changes that would help to level the playing field for nonprofit organizations conducting charitable gaming events. The change in how millionaire parties would be regulated would streamline operation of the events and increase the entertainment for participants. Currently, millionaire parties are not restricted in the amount of money taken in at the door to be exchanged for imitation money or chips, but do have a prize cap of \$2,000 per night. This leads to problems in accurately knowing when the limit has been reached since several tables are operating simultaneously, and also creates dissatisfaction for patrons who have purchased a large amount of chips for several hours of entertainment only to have the games suddenly closed down because the prize limit had been reached earlier in the evening than anticipated.

Also, the bill would permit the Bureau of State Lottery commissioner to waive certain requirements for licensing for organizations or individuals under certain emergency circumstances in order to conduct events to raise money for victims of fires, natural disasters, or people needing assistance with medical bills, and so on. Further, the bill would clearly specify that recreational bingo in senior centers or homes would not be regulated under the bingo laws. Other changes would include allowing nonprofit organizations to have twice the number of Las Vegas night parties as is currently allowed and also to hold more than one bingo license. Numeral games, which would be

allowed by the bill, as well as being able to sell charity game tickets year round, may also increase revenues to nonprofit organizations for charitable activities. These changes would definitely streamline the charitable gaming laws, as well as infuse new life into charitable gaming events.

The bill would not clear all the obstacles faced by nonprofits conducting charity games, but it would go a long way in updating many antiquated laws. Charities will still face stiff competition from casino gaming and high payoffs at Canadian bingos when vying for available discretionary entertainment dollars. Most industry members feel that the bill is long overdue and there appears to be a wide consensus that the bill is balanced in regards to the various parties involved in charity gaming. Further, it is important to note that the majority of revenue brought in via charity gaming goes back into communities through various projects to aid those in need. Therefore, the charitable gaming laws should be overhauled to ensure the survival of this very important avenue of fund raising.

### ***Response:***

Though there are many good and important changes that the bill would bring about, it still doesn't address the primary problem with bingo in the state -- the \$2,000 prize cap. Michigan is losing many charitable dollars (some estimate the losses to be in the millions) to for-profit casinos and bingos around the state, in other states, and in Canada. In order for charity bingos to survive against big casino payoffs and large Canadian bingo jackpots, the prize cap on large bingos must be raised to at least \$3,000 per event. Though some are concerned that patrons would abandon smaller bingos that would be unable to offer the higher prize amount, it is also true that many people enjoy the intimate atmosphere and less competition that smaller bingos afford. Indeed, some small bingos currently award prizes in amounts less than the \$2,000 prize cap, and so an increase in the prize cap may not have a detrimental effect at all.

### ***Rebuttal:***

The creation of the Michigan Progressive Jackpot Bingo will give an opportunity to offer a larger jackpot. Progressive jackpot games are coverall games in which a certain amount of numbers are called each night. If no one bingos, the jackpot is rolled over to the next bingo event and one more number will be added to the amount of numbers called. The jackpot is rolled over until a patron bingos. Many believe that progressive jackpots would add a new level of excitement into bingo events by offering larger pots and could attract a newer and

younger crowd to charitable gaming. In addition, since the Progressive Jackpot prize is not counted in the \$2,000 prize cap, charities offering a Progressive Jackpot Bingo game may be able to give away more in prizes than they could if the prize cap were raised to \$3,000.

### ***Against:***

A concern has been raised that allowing bingo halls to offer more than one bingo per location per day could result in some areas being saturated with bingos. An increased level of saturation of bingos could in turn result in lower revenues for the bingos in such an area, thus diminishing the intent of charitable gaming.

### ***Response:***

The bill would mitigate this concern somewhat by allowing only two bingos per day at any one location, with no more than ten bingos in a seven-day period. Therefore, the bill would only increase the current number of allowable bingos per bingo hall by three a week.

### ***Against:***

Some people feel that the tax on charity game tickets is too high. Revenue received by the state through the tax helps to offset administrative costs of enforcing and implementing the act and enables the licensing fees to be kept low. However, the revenue generated by the tax on charity game tickets far exceeds the amount needed to make up for the deficiencies caused by low license fees. In 1997, the lottery deposited almost \$7 million of revenue received from charitable gaming into the general fund, and approximately \$8 million in 1998. These are funds that have been raised by charities that are over and above the amount needed by the bureau to cover administrative and enforcing costs. Though licensing fees and taxes on charity game tickets and numeral game tickets should be high enough to support the bureau's administrative costs, some people would like to see this excess reduced so that the charities could have more money available to fund social service programs, medical research, educational programs, and so on, especially since state aid to many nonprofit organizations have declined in recent years.

### ***Response:***

Though perhaps this is a situation that deserves to be looked into, this bill may not be the proper vehicle. The intent of the bill is to create a more level playing field for charities to compete against for-profit gaming businesses, and to streamline licensing and reporting requirements. To that end, the bill goes a long way in changing an out-dated law and making it easier for charities to compete against the private gaming

industry. It should also be pointed out that though the last several years have shown a profit from charitable gaming, there have been many years that revenue from licensing fees and charity game tickets has not been sufficient to cover the bureau's administrative costs and the taxpayers have had to cover the costs from the general fund. Most involved with charitable gaming agree that any decisions regarding the rate at which charity and numeral game tickets are taxed, or decisions about the use of any excess revenue derived from charitable gaming, would be a budget issue and best left to a separate bill. For now, this legislation is sorely needed and should not be delayed.

### ***POSITIONS:***

The Bureau of State Lottery supports substitute H-4. (4-20-99)

The Michigan Bingo Vendors Association supports the bill. (4-21-99)

Central Gaming supports the bill. (4-21-99)

The Michigan Bingo and Charitable Gaming Association supports the bill. (4-21-99)

Catholic Outreach generally supports the bill, but would prefer to see the tax lowered on charity game tickets. (4-21-99)

Analyst: S. Stutzky

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.