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SFA**BILL ANALYSIS**

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House Bill 4472 (Substitute S-2 as reported)
Sponsor: Representative James Koetje
House Committee: Gaming and Casino Oversight
Senate Committee: Government Operations

Date Completed: 5-27-99

RATIONALE

The Bingo Act has regulated all charitable gaming in Michigan since 1972. 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. The Bureau of State Lottery reports that in fiscal year (FY) 1997-98, charities in Michigan reported a net profit of \$62 million from licensed charitable gaming. It has been pointed out, however, that recent years have seen a decline in charitable gaming, particularly bingo, because of competition from Indian casinos in Michigan and in other states, Canadian casinos, and Canadian bingo halls. 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 exceeding \$40,000; these bingos in Sarnia and Windsor evidently have served to siphon patrons from Michigan charity games. In 1984, over 2,500 bingo licenses were issued to Michigan charitable organizations. There are now fewer than 1,500. While bingo generated a net profit for bingo operations of \$20.9 million in FY 1997-98, net profits have been reduced by a total of \$20 million since 1994, and attendance at bingo events has dropped by 4 million during that time.

In addition to the problems caused by reduced bingo attendance, nonprofit charitable organizations have claimed that their use of millionaire parties and other forms of gaming for fund-raising purposes has suffered with the increasing popularity of Indian and Canadian casinos. Further, some people believe that since many of the Act's provisions were codified in 1972, there is a need to update the Act. It has been suggested that the Act be revised to address concerns regarding competition, regulation of charitable gaming, and administration of the Act.

CONTENT

The bill would amend the Bingo Act to do the following:

- Increase the number of bingo events and

millionaire parties that a qualified organization may conduct.

- Create the Michigan progressive jackpot bingo game, in which jackpots not won could be carried to the next bingo event and be allowed to exceed current maximum jackpot limits.
- Establish licensure requirements for charity games, numeral games, raffles, bingo hall operators, and manufacturers of numeral game tickets.
- Replace the current maximum prize limit on millionaire parties.
- Increase the maximum amount of the performance bond that an equipment and ticket supplier must post.
- Allow certain charity games and numeral games to be conducted separately from bingo and/or millionaire parties.
- Exempt from licensure certain recreational bingo.
- Allow the Lottery Commissioner to waive certain licensure requirements for hardship conditions.
- Establish and revise annual fees for various games.

Under the Act, a “qualified organization” must obtain a license to operate a bingo or millionaire party from the Lottery Bureau. A qualified organization is a bona fide religious, educational, service, senior citizens, fraternal, or veteran’s organization that operates without profit to its members.

Bingo

Currently, a qualified organization may hold only one bingo license; not more than seven licensees may conduct bingo during a seven-day period at any one location. The bill would allow a qualified organization to hold more than one bingo license. A “small” or “large” bingo license would be valid only for one day per week. Up to 10 bingo licenses could be issued for a seven-day period at any one location; however, not more than one bingo license could be issued to a qualified organization for any one day, and not more than two bingo licenses could be issued for the same day at any one location.

Currently, two types of bingo licenses may be obtained. For a \$150 fee, the Lottery Commissioner may issue to a qualified organization a bingo license under which the licensee may conduct bingo that has a maximum prize of \$500 per game, and \$2,000 per day in total prizes awarded. For a \$55 fee, the Commissioner may issue to a qualified organization a license to conduct bingo that has a maximum prize of \$25 per game, with a maximum of \$300 per day in total prizes. The bill would not change the fees or the maximum prize amounts, but would designate the licenses as a “large bingo” license or a “small bingo” license.

The bill provides that all laws pertaining to the seating of persons with disabilities would apply at licensed bingo games. The bill also provides that a person could be a chairperson for more than one bingo only if the additional bingo licenses for which the person would act as chairperson were granted to the same qualified organization.

Currently, a licensed qualified organization and an unlicensed qualified organization may obtain a special bingo license, twice in any one-year period, that is good for up to a seven-day period at a designated location. (For a licensed qualified organization, the special license may be used for conducting bingo at locations and on days other than those set forth in its annual license.) Applicants must pay a \$50 fee, or \$10 if the unlicensed qualified organization only applies for a one-day license. The bill would repeal these provisions, and instead would allow a qualified organization to be issued up to four special bingo licenses per calendar year (up to seven consecutive days per license); a special license applicant would have to pay a \$25 fee per license. Further, the bill provides that the maximum prize payments for a special bingo could be no greater than those allowed under a large bingo license.

The bill provides that recreational bingo could be conducted by a senior citizens club, group, or home consisting of members 60 years of age or older, without obtaining a license, if all of the following conditions were met:

- The bingo was conducted solely for the amusement and recreation of the members and guests of the senior citizens club, group, or home and not used for fund-raising.
- Only members, guests of members, and employees of the senior citizens club, group, or home could participate in the operation of the bingo.
- Players were not charged more than 25 cents for a bingo card, and the aggregate retail value of all prizes and merchandise awarded in a single day did not exceed \$100.
- All revenue from the bingo was used for prizes and reasonable expenses incurred in operating the bingo, and no person was compensated solely for participating in the conduct of the bingo.

Progressive Jackpot Bingo

The bill would establish the Michigan progressive jackpot bingo game, which would not be subject to the maximum prize limitations prescribed in the Act, except that the prize awarded for the first progressive bingo game, if won, could not exceed \$500. If a progressive jackpot prize were not won in the predetermined number of allowable calls, the game would have to be played to its conclusion for a predetermined consolation prize of up to \$100. If a progressive jackpot prize were not won in the predetermined number of allowable calls, the entire prize amount would have to be carried forward to the next scheduled bingo occasion. When carried forward from a previous bingo occasion, the new prize amount would have to include the entire amount carried forward, plus 50% of the card sales for the progressive game for the current bingo occasion. No arrangement of numbers other than a “coverall” pattern could be required or allowed to win a progressive jackpot bingo game. “Coverall pattern” would mean a pattern in which all numbers on a bingo card would have to be called.

A Michigan progressive jackpot bingo game could be played only on bingo cards approved by the Commissioner. All cards for the Michigan progressive jackpot bingo game would have to be sold by the licensee at a uniform price with no discount for the purchase of more than one card. All bingo cards used in the game would have to be sold prior to the drawing of the first ball for that game.

Whenever a Michigan progressive jackpot bingo game was conducted, the licensee would have to post a notice and announce the following: the maximum number of allowable calls in which the

player had to complete a coverall pattern in order to win a progressive jackpot prize on that occasion; the prize amount offered to the winner of the progressive game and the consolation prize for that bingo occasion; and the date the next bingo occasion would occur in that particular progression if the jackpot were not awarded. A progressive game would have to be conducted in the following manner:

- On the first bingo occasion a player could not be required to obtain bingo in fewer than 50 numbers called to win the jackpot prize.
- The number of allowable calls required to win the jackpot would have to be increased by one number on each successive bingo occasion in a particular progression.
- Once a progressive game had been started, the progressive jackpot prize would have to be offered at each successive bingo occasion for that licensee until the jackpot prize had been won.
- A progressive jackpot progression could be terminated or interrupted only by: determination of a winner of the progressive prize; expiration, suspension, revocation, or surrender of the license to conduct bingo; a previously announced scheduled interruption, such as a legal holiday or other temporary closing; or a valid emergency condition under which the licensee was unable to conduct the game.

Only one progressive game could be in progress at one time per bingo occasion. Prizes for a Michigan progressive jackpot bingo game would have to be awarded as follows:

- The progressive prize would have to be awarded to the player or players who completed the coverall pattern within the predesignated number of allowable calls.
- A consolation prize would have to be awarded on each bingo occasion at which a progressive game was played, except on the bingo occasion on which the jackpot prize was won.
- The consolation prize would have to be awarded to the player or players who completed a coverall pattern on each bingo occasion, regardless of the number of calls in excess of the predesignated number of allowable calls required to win the progressive game.
- The jackpot prize would have to be awarded by a check written from the licensee's financial account.
- If an organization's bingo license expired or were suspended, revoked, or surrendered before the last bingo occasion of a particular progression, the jackpot prize would have to be awarded and the winner determined on the last authorized bingo occasion regardless of

the number of calls required to determine the winner.

Charity, Numeral, and Raffle Games

Currently, while there are some regulations for charity games there are no licensure requirements. (Charity game tickets are commonly known as pull-tabs, or break-open tickets.) A qualified organization that is licensed to conduct a bingo game or a millionaire party also may sell charity game tickets and conduct a charity game at the time and location of and in conjunction with the licensed bingo game or licensed millionaire party. An additional license is not required to sell charity game tickets or to conduct a charity game but a qualified organization that seeks to conduct a charity game must pay the Bureau fees as determined by the Commissioner. Further, qualified organizations, including those licensed to hold bingo or millionaire parties, must obtain a license to hold a raffle if the prize or prizes exceed \$500 in value; a raffle must be registered if the prize exceeds \$100 but is not more than \$500. (There are no requirements for raffles with prizes totaling \$100 or less.) The bill would eliminate these provisions.

The bill instead would require a qualified organization to obtain a license to conduct a charity game, raffle, or numeral game. ("Numeral game" would mean the random resale of a series of numeral game tickets by a qualified organization. "Numeral game ticket" would refer to a paper strip on which preprinted numerals were covered and banded by a separate paper strip, that would disclose whether the ticket was a winning ticket when the paper strip banding the ticket was broken.) A qualified organization licensed for bingo or a millionaire party, however, would not have to obtain an additional license if it conducted a charity game in conjunction with a bingo, millionaire party, or large raffle; or if it sold numeral game tickets in conjunction with a millionaire party or a large raffle.

The Commissioner could issue an annual charity game license to a qualified organization for a location owned and operated by the qualified organization for the regular use of its members, or rented or leased on a continual basis for the regular use of its members. A qualified organization could be issued only one annual charity game license per year, which would expire at midnight on July 31 of each year. An annual charity game license could be reissued annually if the qualified organization submitted an application for renewal provided by the Commissioner and paid the \$200 fee.

A qualified organization could be issued up to eight special charity game licenses per calendar year. A special charity game license could be issued for up to four consecutive days. The fee for a special license would be \$15 per day.

The Commissioner would have to promulgate rules for the licensing, selling, and playing of, and financial record-keeping for, charity games.

Currently, the Act requires the percentage retained by a qualified organization to equal the percentage received by the Bureau for the sale of charity game tickets. The bill would retain this provision. Currently, a charity game may not have a single maximum prize in excess of \$200. The bill would delete this restriction.

The bill would allow a qualified organization to apply for an unlimited number of small and large raffle licenses. Only one small raffle license could be issued for a location each day. All drawing locations would have to be the same if a small raffle license were issued for more than one date. A small raffle would be an event during which the total value of all prizes for the raffle was less than \$500 for one occasion; a large raffle would exceed \$500 per occasion. A qualified organization would be excused from the requirements of obtaining a license if it sponsored a single gathering, and conducted a raffle before which there was no presale of tickets and the total aggregate retail value of the prize or prizes to be awarded that day was \$100 or less. A large raffle license would be \$50 per drawing date. A small raffle license would be \$15 for three or fewer drawing dates, and \$5 per drawing date for four or more dates.

The bill would allow the issuance of a numeral game license to a qualified organization to conduct a numeral game at a specific location for up to seven consecutive days. A qualified organization that was licensed to conduct a millionaire party or a large raffle also could sell numeral game tickets and conduct a numeral game at the time and location and in conjunction with the event without obtaining an additional license. All numeral game tickets used in a numeral game would have to be purchased by the qualified organization from a supplier. The logo or name of the manufacturer and the serial number would have to be visible before the band on the ticket was broken. The value of merchandise prizes offered at a numeral game would have to be a minimum of 50% of the "ideal gross receipts" from the game; that is, the total amount of receipts that would be received if every individual ticket in a series were sold at face value.

Winning numbers for a numeral game would have to be determined by use of a series of common ending numbers contained within the pool of numbers making up the numeral game. The winning numbers could not be determined randomly. The prize list, associated winning numbers, the total number of tickets offered, and rules of play would have to be posted before the numeral game was offered for sale or any tickets were opened.

A numeral game ticket could not be sold to a person under 18 years old; however, this provision would not prohibit the purchase of a numeral game ticket by a person 18 or older for the purpose of making a gift to an underage person, and would not prohibit an underage person from receiving a prize or prizes won in a numeral game.

The licensee would have to have available for inspection by an authorized representative of the Bureau a copy of the invoice from the supplier showing the manufacturer's name and serial number for each numeral game conducted.

The license fee for a numeral game would be \$15 per day.

Millionaire Parties

The bill would replace the current maximum prize cap on millionaire parties, and increase the number of licenses a qualified organization may obtain. Currently, all prizes awarded in one day may not exceed \$2,000 in value. The bill instead would establish 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 millionaire party licenses annually (increased from two one-day licenses or one three-day license), and a license could be issued for up to four consecutive days (instead of three days). A license would cost \$50 per day. (Currently, a license is \$50 per day, except the three-day license is \$100.)

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 also could conduct numeral games in conjunction with the millionaire party without an additional license. The value of raffle, charity game, and numeral game prizes would retain the current \$500 limitation on individual prizes; however, the prizes would not be counted toward the \$500 cap on the amount that a person participating in a millionaire party may receive in prizes.

Currently, participants at a millionaire party are prohibited from competing against each other, other than during an auction or raffle; participants are allowed to compete against the licensee only. This bill would eliminate this provision.

Bingo Hall License

The bill would require a bingo hall to obtain a bingo hall license, and would regulate the operation of bingo halls. Each applicant for a license or renewal of a license to operate a bingo hall would have to submit a written application to the Bureau on a form prescribed by rule. If the Commissioner determined that an applicant was eligible, and the applicant paid

the appropriate fee, the Bureau could issue a bingo hall license to operate a facility that would be rented to bingo licensees.

The annual bingo hall licensing fee would be \$50 multiplied by the number of large or small bingo occasions that would be conducted during a seven-day week. To increase the number of large or small bingo occasions conducted under a bingo hall licensee's original or renewal application, a hall licensee would have to submit a written request on a form provided by the Commissioner, plus an additional \$50 for each large or small bingo occasion that would be conducted during the seven-day week that was in addition to the number calculated previously.

Suppliers

Currently, qualified organizations licensed to conduct bingo or a millionaire party must obtain equipment and charity game tickets only from a licensed supplier. A licensed supplier must remit to the Bureau an amount equal to the qualified organization's purchase price of the charity game tickets minus an amount that is not less than the sum of \$.008 for each ticket sold plus 1% of the total resale value for all charity game tickets sold. A supplier must pay an annual license fee of \$300 to the Bureau. This bill would retain these provisions, and further provides that each applicant for a license or renewal to operate as a supplier of equipment, charity game tickets, or numeral game tickets to licensed qualified organizations would have to submit a written application to the Bureau on a form prescribed by the Commissioner. A supplier's license would expire at midnight on September 30 each year.

The bill would require the Commissioner to require suppliers who were authorized to sell charity game tickets and/or numeral game tickets to post a performance bond of at least \$50,000, but no more than \$500,000. Currently, a supplier must post a bond of between \$50,000 and \$100,000.

The bill would require a supplier to collect \$5 per 1,000 numeral tickets sold to a qualified organization for each game. The supplier would have to remit the fees to the Bureau by the 15th day of the month following the month in which the numeral game was sold. The Commissioner could assess a late fee of 25% of the amount due against any supplier who failed to remit the fees by the required filing date. A supplier could display, offer for sale, sell, or otherwise make available to a qualified organization only numeral game tickets that had been obtained from a manufacturer.

A person who was directly or indirectly connected to the sale, rental, or distribution of bingo or millionaire party equipment, or the sale of charity game tickets or numeral game tickets, or a person residing in the

same household as the supplier, could not be involved directly or indirectly with the rental or leasing of a facility used for an event.

A supplier would have to submit to the Bureau a report as required by the Commissioner regarding the sale or rental of equipment and the sale of charity game tickets and numeral game tickets.

Manufacturer's License

The bill would require a manufacturer of numeral game tickets for suppliers to obtain a license, for an annual fee of \$300. Each applicant for a license or renewal of a license to act as a manufacturer would have to submit to the Bureau a written application on a form prescribed by the Commissioner. The license would expire at midnight on June 30 of each year.

Only numeral games and numeral game tickets approved by the Commissioner could be distributed to suppliers within the State. All records supporting the sale of numeral game tickets to suppliers would have to be available upon request to an authorized representative of the Bureau for inspection or audit, and be kept by the manufacturer for at least the calendar year in which the sale was made plus three additional years. Each manufacturer would have to submit to the Bureau a report as required by the Commissioner regarding the sale of numeral tickets to suppliers.

Extreme Hardship

The bill provides that under extreme hardship conditions, as determined by the Commissioner, the Commissioner could waive one or more requirements of a qualified organization to permit the licensing of a special bingo, millionaire party, or raffle, if all of the following conditions were met:

- The organization applying for the license was a nonprofit organization.
- The entire proceeds of the event, less the actual reasonable expense of conducting the event, were donated or used for a charitable purpose, organization, or cause.
- None of the individuals connected with the conduct of the event was compensated in any manner for his or her participation.
- The organization complied with all other provisions of the Act and the rules.

In addition, under extreme hardship conditions, as determined by the Commissioner, the Commissioner could allow an individual or a group of individuals to obtain a license to conduct a special bingo, millionaire party, or raffle if all of the following conditions were met:

- The entire proceeds of the event, less the actual reasonable expense of conducting the event, were donated or used for a charitable purpose, organization, or cause.
- None of the individuals connected with the conduct of the event was compensated in any manner for his or her participation.
- The individual or group of individuals complied with all other provisions of this Act and the rules.

Penalties

The Act provides that a licensee whose license is revoked for a violation of the Act or a rule is ineligible to apply for a license for one year. The bill would prohibit application for two years.

Currently, if a license is suspended, in addition to other penalties, the Commissioner may declare the violator ineligible to conduct bingo, a millionaire party, or a charity game, or to apply for a license for one year. The bill would eliminate this provision. The bill provides that with approval of the Commissioner, a bingo hall licensee, in lieu of a suspension of its license, could elect to pay a fine equal to the amount of rent that would have been paid by the bingo licensees during the period of the suspension. This fine would have to be paid to the Bureau by the date agreed to in the suspension agreement entered into by the Bureau and the hall licensee.

MCL 432.102 et al.

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

Charitable gaming has encountered serious competition from the expansion of casino gaming in Michigan, Canada, and neighboring states. Unlike casinos, which are for-profit entities, charitable gaming is conducted by nonprofit organizations and proceeds are used for charitable purposes. 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. 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.

Further, those who regulate charitable gaming, and those who are regulated, have expressed concerns that the Act has become a hindrance to the efficient operation of charitable gaming. The bill would help to level the playing field for charities that must compete against for-profit gaming businesses, and allow the Bureau of State Lottery to update and streamline licensing and reporting requirements. Money raised through charitable gaming most often is used for aid to the needy, or other worthwhile projects, in the community in which it is raised. This revision of the charitable gaming law would help to ensure the survival of an important fund-raising tool.

Supporting Argument

The bill proposes a number of changes that would help to make charitable gaming events run by charitable organizations more competitive, and thus more attractive to potential participants. The creation of the progressive jackpot bingo would create 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 is 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 to bingo events by offering larger pots and could attract larger crowds to charitable gaming. In addition, since the progressive jackpot prize would not be counted in the \$2,000 prize cap, charities offering a progressive jackpot bingo game would be able to give away more in prizes than they could if the prize cap were simply raised.

The bill also would increase the allowable number of

bingo and millionaire party events that may be held. Further, charitable organizations would be allowed to sell charity game tickets year-round, and to conduct numeral games. The change in how millionaire parties are 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 has been reached earlier in the evening than anticipated.

All of these changes in the Act would give charitable organizations more options to use in attracting participants, and would offer those organizations more opportunities to increase revenues for charitable activities.

Supporting Argument

Currently, under the Act, bingo games held as recreation for persons in nursing homes or senior centers come under the licensing and regulation requirements of the Act. These games are not used to raise funds, and are not open to the general public. The bill specifies that, under certain conditions, recreational bingo for seniors in a club, group, or home could be conducted without licensure. Further, the bill would permit the Lottery Commissioner to waive licensure requirements for organizations, individuals, or groups of individuals under certain emergency conditions; this would allow individuals or organizations to attempt to raise money for the victims of natural disasters, fires, sudden illness, or accidents without having to meet all licensure requirements.

Opposing Argument

While the bill would make several necessary modifications to the Act, it could do more. Michigan charitable organizations are losing millions of dollars (including a \$20 million reduction in bingo revenues since 1994) to other gambling venues. In order for charity bingos to survive against big casino payoffs and Canadian bingo jackpots, the \$2,000 prize cap on large bingos must be raised.

Response: The bill would address this concern by the establishment of the progressive jackpot game, which would have no limit. Further, others have pointed out that if the limits were raised for all bingo games, many small organizations that run bingos would be unable to compete with the larger ones because they would be limited in the number of large prizes they could offer.

Opposing Argument

In FY 1997-98, approximately \$7 million in revenue

from charitable gaming was deposited in the General Fund. These are funds that were raised by charities over and above the amount needed by the Bureau to cover administrative costs. Though licensing fees and the State's share on the sale of 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.

Response: Charitable gaming organizations feel that their fund-raising efforts are threatened by recent developments in private gaming, and charities need this bill in order to respond. Questions regarding money that the State receives in license fees and sales of certain gaming tickets, and the disposition of that money, perhaps should be addressed at another time.

Legislative Analyst: G. Towne

FISCAL IMPACT

Under current law, administrative costs associated with the operation of charitable gaming are financed from the Lottery Fund. At the end of the fiscal year, all money, including interest, in the State Lottery Fund that is attributable to charitable gaming is deposited in the General Fund. According to an official from the Bureau of State Lottery, the Charitable Gaming Division of the Bureau reported a gross revenue of \$13.6 million and expenses totaling \$6.6 million. Approximately \$7 million in excess revenue from charitable gaming was deposited in the General Fund in 1998.

The provisions of the bill would increase State revenues by a little more than \$3 million. Approximately \$45,000 could be generated by increasing bingo license fees and by allowing organizations to hold more than one bingo license. Approximately \$23,000 could be generated by the increased number of millionaire party licenses an organization may hold. Approximately \$133,500 could be generated from the new charity game license fee. New licenses for operating numeral games, manufacturing numeral games, and operating bingo halls could generate an additional \$36,000. Finally, the bill's provisions allowing organizations to sell charity tickets year round could generate an additional \$3 million.

The bill would have no fiscal impact on local government.

Fiscal Analyst: E. Limbs

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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.