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LOTTERY PRIZE MONEY

Senate Bill 1230 as passed by the Senate
First Analysis (5-23-02)

Sponsor: Sen. John J. H. Schwarz, M.D.
House Committee: Gaming and Casino Oversight
Senate Committee: Appropriations

THE APPARENT PROBLEM:

The Bureau of State Lottery, an autonomous entity within the Department of Treasury, receives the majority of its revenue from ticket sales. Its net revenue, after prizes, operating costs, and other expenses are paid, is deposited in the School Aid Fund. The act specifies that *not less than* 45 percent of the total annual revenue from the sale of lottery tickets or shares must be apportioned for payment of prizes to the holders of winning tickets or shares. The lottery bureau also has the option of paying out a higher share of ticket sales as a percentage of its total revenues. Currently, lottery prize payouts average 54 percent of ticket sales.

Under current law, the requirement that the lottery bureau distribute not less than 45 percent of its total annual sales for prizes will expire January 1, 2003 (for additional details, see *Background Information*.) After January 2, 2003, the ratio will revert to 45 percent of total annual sales for prizes. In other words, by law, the lottery payouts will decrease to exactly 45 percent of sales. Lottery officials predict that this will result in large losses in annual lottery ticket sales. According to the House Fiscal Agency, the change in payout could result in a $145 million reduction in deposits to the School Aid Fund. Consequently, legislation has been proposed to extend the sunset date on the current law for another four years, to January 1, 2007.

THE CONTENT OF THE BILL:

Currently, the Lottery Act specifies that until January 1, 2003, as nearly as practicable, *at least* 45 percent of the total annual revenue from the sale of lottery tickets or shares must be apportioned for payment of prizes to the holders of winning tickets or shares. After that date, 45 percent of total revenue must be apportioned to pay prizes. The bill would amend the act to extend the date of the change in the distribution of revenue from January 1, 2003, to January 1, 2007.

MCL 432.12

BACKGROUND INFORMATION:

Public Act 239 of 1972 created the Lottery Act, and required that the Bureau of State Lottery distribute 45 percent of total annual sales for prizes. The act was later amended, under Public Act 53 of 1995, to establish a 45 percent *floor* for payouts. Specifically, Public Act 53 required that *not less than* 45 percent of ticket sales be used for prize money. Public Act 53 established a sunset date of January 1, 1999, on which the ratio would return to require that 45 percent of sales be used for prizes. Public Act 167 of 1996 added a provision excluding games that involved joint enterprise agreements (multi-state games such as the “Big Game”) from the calculations of ticket sales or prizes. It was maintained, at that time, that this would improve the lottery’s chance of competing in the gaming market place, since casinos had payout rates of more than 90 percent. Another amendment to the act, under Public Act 393 of 1998, extended the sunset date to January 1, 2003, thus continuing the ratio of not less than 45 percent of sales being used for prize money for four years.

FISCAL IMPLICATIONS:

The bill would continue the current distribution formula of not less than 45 percent of total annual revenue from ticket sales being used for prizes for four more years. The anticipated reduction in prize money and the deposit to the School Aid Fund would not occur. The House Fiscal Agency (HFA) estimates that, without the provisions of the bill, the School Aid Fund could lose as much as $145 million in fiscal year 2002-03, due to the required change in prize payouts as a percentage of total revenues. (5-14-02)

ARGUMENTS:

For:

According to the Bureau of State Lottery, the establishment in 1995 of a 45 percent floor for lottery prize payouts has been hugely beneficial in enabling the Michigan Lottery to meet its statutory mandate to maximize revenue for public education. Since then, sales of instant tickets have increased by 53 percent, and the lottery bureau estimates that this has resulted in an additional $317 million in deposits to the School Aid Fund for the past six years.

The lottery bureau cites the situation recently experienced by the state of Texas as an example of what could occur should the sunset date in the act not be extended: in 1997, Texas reduced its prize payout for instant tickets from an average of 57 percent to approximately 52 percent. During the following two years, Texas' instant ticket sales declined by 40 percent. In 1999, Texas restored its instant ticket prize payouts to former levels, and, since then, instant sales have regained approximately one-third of their lost sales. (The loss of the other two-thirds is attributed to the difficulty of bringing back players once they have been disenfranchised.)

The lottery bureau estimates that prize payouts for all games except multi-state games will have to be decreased, from 54 percent to 45 percent of its total annual revenue, if the sunset date in the act is not extended. Consequently -- applying the experience of Texas to Michigan -- the reduction in prize payouts would result in annual losses of $700 million in sales and $215 million in gross margin. The lottery bureau also points out the loss in deposits to the School Aid Fund would have to be made up from other revenue sources, or from the general fund.

Against:
Experience has shown that a larger share of ticket sales given out in prizes produces increased sales and more net profit for the School Aid Fund. In addition, lottery revenues in the state have declined since casinos opened in the City of Detroit. Consequently, common sense would indicate that the lottery bureau should be allowed to make its games more attractive to the public by eliminating the sunset date on the provision that established the payout of lottery prizes at a minimum of 45 percent of sales, rather than simply extending it.

POSITIONS:

The Department of Treasury supports the bill. (5-22-02)

The Bureau of the State Lottery supports the bill. (5-22-02)

Analyst: R. Young

■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.