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**SFA****BILL ANALYSIS**

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Senate Bill 1230 (Substitute S-1 as reported)  
Sponsor: Senator John J. H. Schwarz, M.D.  
Committee: Appropriations

## **CONTENT**

The bill would amend the McCauley-Traxler-Law-Bowman-McNeely Lottery Act to postpone the anticipated change on January 1, 2003, in the distribution of lottery revenue and continue the current formula of not less than 45% of total annual ticket sales used for prize money until January 1, 2007.

MCL 432.12

## **BACKGROUND**

Almost all of the revenue received by the Bureau of State Lottery comes from ticket sales. Small amounts of revenue may result from charitable gaming and investments. After the payment of prizes and reasonable operating expenses for the Bureau of State Lottery, the net revenue in the State Lottery Fund is deposited in the State School Aid Fund.

When the Act initially was enacted in 1972, the Lottery Bureau was required to distribute 45% of total annual sales for prizes. Public Act 53 of 1995 amended this provision to require not less than 45% of ticket sales to be used for prize money, and set a sunset of January 1, 1999, on which the ratio would return to 45% of sales used for prizes. Public Act 167 of 1996 added a subsection excluding games involving joint enterprise agreements (multistate games such as the Big Game) from the calculations of ticket sales or prizes. Another revision to this section in Public Act 393 of 1998 pushed the date of the sunset back to January 1, 2003, continuing the ratio of not less than 45% of sales used for prize money for another four years. This is the current statute.

Based on the Senate Fiscal Agency's most recent estimate (revised from the January consensus estimate) for lottery revenues for FY 2002-03 of \$579.5 million, the lottery deposit to the School Aid Fund will decrease between \$57.6 million and \$84.2 million following the sunset on January 1, 2003, assuming a 30% to 35% reduction in annual lottery ticket sales. Compared with the FY 2002-03 consensus revenue estimate, the lottery deposit to the School Aid Fund will decrease between \$43.1 million and \$69.7 million under such a reduction in annual lottery ticket sales. These estimates reflect the nine-month impact of the sunset on FY 2002-03 revenues. The full-year impact in FY 2003-04 will be significantly larger. The January 2002 consensus revenue forecast, upon which the FY 2002-03 School Aid budget was built, did not incorporate the statutory lottery revenue distribution change expected on January 1, 2003.

For the past five fiscal years, approximately 54% of ticket sale revenue has been distributed for prizes. Under the Big Game, 50% of sales are allocated to prizes, leaving prizes from other games to average approximately 55% of sales. Under the current statute, on January 1, 2003, the change in revenue distribution will result in an 18.2% reduction in the share of lottery sales allocated to prize money for games other than the Big Game. The sunset in statute, which the bill would repeal, does not affect prizes under the Big Game.

The degree to which sales will respond to the change in the amount of prizes awarded is

unknown. Factors such as the opening of the Detroit casinos, the introduction of new games, and general economic conditions make it difficult to predict the response to less prize money using historical data. As gaming activities that compete with the lottery have proliferated, the responsiveness of sales to changes in prize money appears to have increased. Reducing prize distributions will likely cause ticket sales to decline. Recent experience suggests that the change in sales due to the sunset could easily be 50% to 80%, although these figures are probably too large because they reflect the initial effects of introducing new gaming opportunities such as the Detroit casinos, Internet gambling, and the Big Game, as well as a substantial increase in Indian gaming. While the initial impact of these new gaming opportunities on sales is likely greater than the ongoing effect, the availability of substitutes for the lottery virtually ensures that declines in prize money will reduce lottery ticket sales. Furthermore, the impact of the sunset varies significantly from even small changes in the assumption of how responsive sales are to the share of revenue devoted to prize money. For example, changing the estimated decline in sales from 30% to 35% increases the revenue impact of the sunset by approximately \$35.5 million.

Overall, lottery revenues have declined at an average rate of 3.4% a year since casinos opened in the City of Detroit. Should the purchase of lottery tickets become less attractive relative to the Detroit casinos due to less lottery prize money, the rate of decline in lottery participation could increase. However, because Big Game prizes are not affected by the sunset, the decline in the share of sales allocated to prizes also might increase Big Game sales.

### **FISCAL IMPACT**

The proposed changes made by Senate Bill 1230 (S-1) would continue the current distribution formula of not less than 45% of total annual revenue from ticket sales being used for prizes for another four years. The bill would restore lottery revenue and the lottery deposit to the School Aid Fund to levels consistent with the January 2002 consensus revenue estimate. The anticipated reduction in prize money and the deposit to the School Aid Fund would not occur. The estimate assumes that prize money would follow the pattern of the past few fiscal years and continue to be awarded at a share of approximately 55% of annual ticket sales for games other than the Big Game.

Under the latest estimate for FY 2002-03 lottery revenues, the bill would increase School Aid Fund revenues by \$84.2 million over the nine months of FY 2002-03 affected by the bill. This estimate represents an increase of \$14.5 million over the current consensus estimate of lottery revenues to the School Aid Fund. The increase over the current consensus estimate reflects the Senate Fiscal Agency's revised estimate for FY 2002-03, including additional states joining the Big Game. The estimate assumes that lottery sales of games other than the Big Game would decline by 35% under current law.

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