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Senate Bill 601 (Substitute S-3 as reported)
Sponsor: Senator Mike Kowall
Committee: Regulatory Reform

CONTENT

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

- Authorize the Lottery Commissioner to contract for the placement of advertising or promotional material on Club Keno game media or to sponsor individual draws in the game.
- Require advertisements to comply with Federal Communications Commission content regulations for TV broadcasts, but allow advertisements for alcoholic beverages, with restrictions imposed by the Lottery Commissioner or the Liquor Control Commission (LCC).
- Require the Lottery Bureau to give the LCC information about an advertising contract at least 10 days before entering into the contract, if it involved advertisements for alcoholic beverages.
- Require the LCC to advise the Lottery Bureau of objections or conditions regarding ads for alcoholic beverages.
- Specify that the LCC's failure to respond within 10 days would constitute a waiver of objections or conditions.
- Require the LCC to consider whether a licensee had a history of violations, if a proposed advertising contractor were a liquor licensee.
- Create the "Club Keno Advertising Fund" and require money from advertising contracts to be deposited into that Fund.
- Require money in the Fund to be disbursed to the State School Aid Fund, with the exception of a distribution for the Lottery Bureau's costs related to advertising and, if the Club Keno advertisements involved alcoholic beverages, for the LCC's costs related to advertising.

MCL 432.11 et al.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The Bureau of State Lottery has offered advertisements on Keno screens for about six years under its existing statutory authority. There has not been a demand for the advertisements, although Keno promotions have been part of broader sponsorship and advertising contracts. All net profits of the lottery are deposited into the School Aid Fund. The lottery deposit to the School Aid Fund was \$737.6 million in FY 2010-11.

The authority in the bill to include advertising for alcoholic beverages, subject to restrictions imposed by the Commissioner and members of the Liquor Control Commission, could increase advertiser interest and advertisement purchases. The Lottery Bureau and the Liquor Control Commission would have increased costs to comply with the timelines in the

bill for reviewing advertisements and raising objections or proposed conditions within 10 days. The Lottery Commissioner would be required to include any proposed conditions in the advertising contract and to require the contractor to comply with those conditions.

Under the bill, any revenue from contracts for Keno advertisements would be deposited first into the Club Keno Advertising Fund, which the bill would create, and then transferred to the School Aid Fund and to the Bureau of State Lottery, which would be permitted a limited reimbursement of the cost of administration of the Keno advertisement program. For advertisements involving alcoholic beverages, the Liquor Control Commission also would receive limited reimbursement for administrative costs of not more than \$80,000. It is unlikely that this cap would be reached because the reimbursement would be the lesser of either 20% of the first \$400,000 (which is \$80,000) or 0.4% of annual revenue to the Fund. The \$80,000 cap would not be reached unless revenue from advertisements involving alcohol exceeded \$20.0 million per year. Revenue of \$1.0 million would result in \$4,000 of administrative reimbursement for the Liquor Control Commission. Reimbursement to the Lottery Bureau for advertisements involving alcohol would be the balance of the first \$400,000 in revenue. If the advertisements were not for alcoholic beverages, the Bureau would receive administrative reimbursement of 2% or \$400,000, whichever was less. The \$400,000 cap on Lottery Bureau administrative costs would not be reached until advertisement revenue exceeded \$20.0 million in a State fiscal year. Remaining revenue after the limited expense reimbursement would be transferred from the Club Keno Advertising Fund into the School Aid Fund, which would receive increased revenue of an unknown amount.

Date Completed: 2-21-12

Fiscal Analyst: Elizabeth Pratt

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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.