



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS



Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 889 (Substitute S-1 as reported)
Senate Bill 890 (as reported without amendment)
Sponsor: Senator Mike Kowall
Committee: Regulatory Reform

CONTENT

Senate Bill 889 (S-1) would create the "Lawful Internet Gaming Act" to do the following:

- Allow internet wagering to the extent that it was carried out in accordance with the proposed Act.
- Create the Division of Internet Gaming in the Michigan Gaming Control Board, with specified powers to execute the Act.
- Allow the Division to issue applicants an internet gaming license if they met certain criteria.
- Allow an internet gaming license to be issued only to a casino licensee or, under certain conditions, to a Michigan Indian tribe that operates a gaming facility.
- Prescribe a \$100,000 application fee and a \$5.0 million license fee for an internet gaming license issued to a casino licensee, and provide that a license fee would be an advance payment of internet wagering taxes.
- Limit the number of internet gaming licenses that could be issued to a casino licensee to three.
- Allow internet gaming licensees to offer wagering on internet games.
- Allow the Division to certify internet gaming vendors to provide goods, software, or services to internet gaming licensees; and require an application fee of up to \$100,000.
- Provide that a license or certification would be valid for five years and could be renewed for additional five-year periods.
- Prescribe misdemeanor penalties for violations associated with the application process for an internet gaming license or internet gaming vendor certification.
- Impose a tax of 10% on the gross gaming revenue received from internet games by an internet gaming licensee that was not a Michigan Indian tribe gaming facility.
- Require an internet gaming licensee to have adequate gaming participant verification measures.
- Require the Division to develop responsible gaming measures.
- Allow a wager to be accepted from an individual not physically present in the State if certain conditions were met.
- Create the "Internet Gaming Fund" and require fees and taxes to be deposited into it.
- Require \$5.0 million from the Fund to be given to the First Responder Presumed Coverage Fund, and the balance to be spent on the Board's costs of regulating internet gaming and, on appropriation, for purposes specified by the Legislature.

Senate Bill 890 would amend the Michigan Penal Code to exclude gaming conducted under the proposed Lawful Internet Gaming Act from Chapter XLIV of the Code, which prescribes penalties for illegal gambling activities.

The bills are tie-barred.

MCL 750.310c (S.B. 890)

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

Senate Bill 889 (S-1) would have an indeterminate impact on State and City of Detroit revenue and would result in additional expenses to the Michigan Gaming Control Board. It is difficult to accurately estimate the impact of internet gaming revenue on State revenue. There are a number of factors that would affect revenue in various ways. The first is whether the tax revenue from internet gaming would produce an overall increase to tax revenue or whether the additional revenue from internet gaming would be transferred from other gaming revenue, such as lottery and casino revenue. New Jersey has had internet gaming for three years and the revenue generated for the full first and second years was \$44.3 million and \$45.7 million. If Michigan experienced similar revenue given the similar population size and existence of casino activity, Michigan would generate around \$4.5 million in revenue annually. However, in New Jersey traditional casino revenue also declined \$20.0 million during this period. It is impossible to say whether this decrease was due completely to internet gaming or other factors, but if Michigan experienced a similar change, then overall State revenue would decline. Also, if internet casino revenue increased at the same level as State lottery revenue decreased, the overall State revenue would decline, since 100% of lottery revenue goes to the School Aid Fund while internet gaming would be taxed only at 10%. Even if overall revenue remained the same, the funds that receive the revenue would be affected. If internet gaming revenue were similar to any lost casino and lottery revenue, then the School Aid Fund would decrease while the General Fund increased, which would have an impact on spending for the budgets supported by these fund sources. No state that introduced internet gaming while also having casinos and a state lottery has yet to have an overall increase in the revenue generated from all three sources, so it is difficult to estimate an overall increase with the introduction of internet gaming for the State of Michigan.

The bill also could affect money received from tribal gaming in the event that additional Indian tribes declined to make payments, similar to what occurred when other tribes declined to pay due to the opening of the three Detroit casinos and the lottery's Club Keno game. These payments significantly fund the Michigan Economic Development Corporation and the Jobs for Michigan Investment Fund, and in FY 2014-15 totaled \$43.9 million.

The bill would result in additional expenses to the Michigan Gaming Control Board to regulate and issue licenses for internet gaming, and certifications of internet gaming vendors. The license fees would make up the majority of the administrative revenue for the Board. Since the initial licenses would be valid for five years, the \$5.0 million generated per license would amount to \$1.0 million each year for regulation per license issued, for that five-year period. Given the high information technology costs associated with this type of regulation, it is difficult to predict whether the administrative revenue would be sufficient to support the regulatory costs. If the Board needed additional revenue for administration, there would be a greater overall negative impact on the State.

In addition, the proposed misdemeanor penalties could have a negative fiscal impact on local governments. An increase in misdemeanor arrests and convictions could increase resource demands on local court systems, law enforcement, and jails. Any associated increase in fine revenue would be dedicated to public libraries.

Senate Bill 890 would have no fiscal impact on State or local government.

Date Completed: 7-26-16

Fiscal Analyst: Ryan Bergan
Cory Savino

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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.