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BILL ANALYSIS

Senate Fiscal Agency

Lansing, Michigan 48909

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House Bill 4569 (as reported without amendment)

Sponsor: Representative Bob Emerson

House Committee: State Affairs

Senate Committee: Regulatory Affairs

Date Completed: 6-1-87

RATIONALE

The lottery Act will expire July 1, 1988. Many people believe that the lottery program has been successful in generating needed revenue for the State School Aid Fund and should be made permanent.

In addition, the lottery Act currently prohibits contracts between the Lottery Bureau and vendors for more than two years. Reportedly, this creates several problems for the Bureau. It must go through the expense of the contract bidding process every two years. Once a vendor gets the contract, many days must be spent converting the old system to the new system, creating additional inconvenience to the Bureau. No other state has a two-year limit on vendor contracts, and some people believe it should be eliminated.

CONTENT

The bill would amend the McCauley-Traxler-Law-Bowman-McNeely Lottery Act to delete a provision that would sunset the Act on July 1, 1988. The bill also would eliminate a provision that currently limits to two years the length of time that the Lottery Bureau can contract with a vendor.

MCL 432.5 and 432.9

FISCAL IMPACT

The lottery Fund is estimated to provide \$500 million in revenue to the School Aid Fund in FY 1987-88. This bill would have no fiscal impact in that it would allow lottery revenues to continue to support the School Aid Fund as reflected in the FY 1987-88 budget bills. If the bill is not passed, and the lottery expires, as much as \$250 million could be lost to the School Aid Fund.

There would be a savings in future years of up to \$100,000 every two to four years from eliminating the two-year limitation on contract vendors. The current on-line system will expire in January 1989. A longer contract period would save periodic consulting and conversion costs, as well as potentially allowing for a more favorable financing package.

ARGUMENTS**Supporting Argument**

The State lottery has proven to be an effective and efficient means of generating much needed revenue for the School Aid Fund. There is no longer a need to place a sunset date on the legislation.

Supporting Argument

Currently, a great deal of staff time is required to oversee the conversion from one data processing system to a new

system. If this cycle were repeated every four years instead of every two, for instance, the Bureau's employees could tackle other issues besides the system conversion. In addition, the large vendor contracts frequently result in litigation that also takes up a great deal of staff time; every two years staff is involved in litigation explaining why they chose a certain vendor six months or one year ago.

Further, the systems that are used by the Bureau are very complex and specialized. Typically, the Bureau hires a consultant to help evaluate bids and convert the system. Generally, the cost of the consultant is \$100,000. Consequently, if the consultant were used every four years as opposed to every two years, the State would save \$100,000.

Supporting Argument

If the two-year limit on vendor contracts were eliminated, more competition would be created for the bids. Currently, the short period of the contract necessitates the acceptance of bids from vendors with large operations, because smaller vendors cannot install the amount of data processing equipment as quickly as the larger firms. If the contract term were lengthened, smaller vendors would also be able to bid, which would make the whole process more competitive.

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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.

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