

INTERNET RAFFLES

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House Bill 5393 (H-2) as reported from committee

Sponsor: Rep. Bradley Slagh

Committee: Regulatory Reform

Complete to 9-28-22

Analysis available at
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BRIEF SUMMARY: House Bill 5393 would amend the Traxler-McCauley-Law-Bowman Bingo Act, which regulates charitable games conducted by qualified organizations, to do all of the following:

- Allow, for up to two raffle events a year, a qualified organization to sell raffle tickets through the internet.
- Revise provisions that currently apply to raffles, apply them also to internet raffles, and group most of those provisions separately from provisions pertaining to other charitable games allowed under Article 1 of the Bingo Act.
- Grant regulatory oversight over raffles to the Michigan Gaming Control Board (MGCB), rather than the Bureau of the State Lottery and its commissioner.

FISCAL IMPACT: The bill would increase costs for the Michigan Gaming Control Board by an unknown, but likely significant, amount. (See **Fiscal Information**, below, for a detailed discussion.)

THE APPARENT PROBLEM:

The ongoing COVID-19 pandemic not only increased the demand for services by many charities, it also presented major obstacles to the ability of charities to raise funds for their programs. The inability to conduct in-person fundraising events, coupled with economic challenges faced by many donors, resulted in many charities losing as much as 70% of their annual revenue, if not more. Even though in-person events have begun again, many charities are still struggling. Legislation offered during the 2019-20 legislation session explored changing the law to allow charities to conduct online raffles since in-person events had to be canceled. Although in-person raffles are once again being conducted, some feel that charities, and their supporters, could still benefit from offering a raffle online.

THE CONTENT OF THE BILL:

House Bill 5393 would amend the Traxler-McCauley-Law-Bowman Bingo Act to create separate but nearly identical provisions pertaining to *raffles* (which would include internet raffles) from other charitable games regulated under Article 1 of the act. Under the bill, a *qualified organization* could apply for an internet raffle license. The fee would be \$75.

The bill would revise the definition of *raffle* to mean either of the following:

- An event for which raffle tickets are sold and at which a winner or winners are determined, either by randomly selecting stubs from all of the raffle tickets sold for an event or by an alternative method that is approved in writing by the MGCB, and a preannounced *prize* is awarded. (This is the definition that is currently law, except that it is now the Bureau of State Lottery and not MGCB that must approve an alternative method of determining winners.)

- The sale of raffle tickets to which all of the following apply:
 - The sale is through the internet.
 - Each winner is determined by a member of the qualified organization while the member is physically present at the *location*. (*Location* currently means a building, enclosure, part of a building or enclosure, or a distinct portion of real property used for the purpose of conducting an event. The bill would additionally require the structure or real property to be located in Michigan.)
 - The member of the qualified organization determines the winner by randomly selecting stubs or tickets from all tickets sold for the raffle.
 - The tickets are contained in a single physical receptacle that affords each stub and ticket equal opportunity to be drawn.
 - A preannounced *prize* does not include money or cash equivalent.

Prize currently means anything of value, including money or merchandise given to a player for attending or winning a game at an event, but does not include advertising given away by a qualified organization in accordance with rules promulgated under the act. The bill would add that, for a raffle for which tickets are sold in part or entirely through the internet, *prize* also does not include money or cash equivalent, which would include, but not be limited to, a debit card or other card redeemable for cash. However, this provision would not apply to a gift certificate or gift card issued by a retail establishment if the combined value of the gift certificates or gift cards did not exceed \$50 for each *drawing date*.

Drawing date would mean a single calendar day on which a raffle drawing or drawings may be conducted in accordance with a license issued by MGCB.

Qualified organization means either of the following:

- A bona fide religious, educational, service, senior citizens, fraternal, or veterans' organization that operates without profit to its members and that either has been in existence continuously as an organization for five years or is exempt from taxation under section 501(c) of the Internal Revenue Code.
- For the purposes of conducting a small or large raffle as defined in the act, a component of the military or Michigan National Guard whose members are in active service or active state service.

However, *qualified organization* does not include a candidate committee, political committee, political party committee, ballot question committee, independent committee, or any other committee as defined by, and organized under, the Michigan Campaign Finance Act.

Under the bill, for raffles and raffles only, all of the following would apply:

- The MGCB would be required to enforce and supervise the administration of Article I.
- The MGCB would have to employ personnel as necessary to implement Article 1.
- The MGCB could audit qualified organizations to ensure that the organizations are in compliance with Article I.

For raffles, the bill would require—not later than six months after the bill's effective date—the MGCB to promulgate rules to implement Article 1.

As noted above, most of the provisions currently pertaining to raffles would remain the same but would be expanded to also pertain to internet raffles. However, a few would be revised, as described below.

Regulatory authority

The MGCB, rather than the Bureau of State Lottery and its commissioner, would be tasked with the regulatory authority and oversight regarding a raffle event. Numerous current provisions pertaining to raffles would be carved out, expanded to include internet raffles, and would refer to the MGCB as the regulatory authority. For example, the MGCB, rather than the commissioner, would have the authority to deny, suspend, summarily suspend, or revoke a raffle license or a *supplier* license for a violation of the act. The MGCB could summarily suspend a raffle license for a period of not more than 60 days pending prosecution, investigation, or public hearing.

Supplier currently means a person licensed to rent, sell, or lease equipment or to sell charity game or numeral game tickets to qualified organizations licensed under the act. The bill would add that the term does not include a person providing only payment processor services to a licensee.

Application for a license to conduct a raffle

Under the bill, an applicant for a license to conduct an internet raffle or raffle would have to submit to the MGCB a written application that is on a form prescribed by the MGCB and that includes all of the following:

- The name and address of the applicant organization and the name of each officer.
- The location at which the event will be conducted.
- The day or dates of the event.
- Sufficient facts relating to the applicant's incorporation or organization to enable the MGCB to determine whether the applicant is a qualified organization.
- Other information the MGCB determines is necessary.

The following information currently required to be included in an application to conduct a raffle would not apply to obtaining a license to conduct a raffle under the bill:

- The member or members of the applicant organization who would be responsible for the conduct of the event.
- A sworn statement attesting to the nonprofit status of the organization.

Currently, under extreme hardship conditions, one or more requirements for a person to be a qualified organization, and therefore eligible to be granted a license for a raffle event or for an individual or a group of individuals to conduct a raffle, may be waived if certain conditions are met. The bill would add to the conditions that none of the raffle tickets could be sold through the internet.

In addition, the following would apply to a raffle license:

- Not more than two raffle licenses per calendar year could be issued to a qualified organization for a raffle in which tickets are sold in part or entirely through the internet, and the raffle license could authorize a raffle for only one drawing date. For the purposes of this provision, each chapter of a statewide or national organization would be considered a single qualified organization.

- Only an MGCB-approved payment processor could be used by the holder of a raffle license to process payments. A payment processor could not issue tickets or determine, or be used to determine, the winner of a raffle.
- Raffle tickets could not be sold or distributed through a kiosk, machine, or similar physical device. If sold before the raffle event, the raffle tickets would have to be printed before the sale. Raffle tickets sold through the internet could be purchased only by persons located in Michigan.
- The MGCB would not issue a raffle license that permitted the conduct of a raffle at the same time and location of a millionaire party event.
- Only a qualified organization issued a raffle license for which part or all of the tickets were sold through the internet could advertise a raffle in which tickets are sold through the internet.
- Payment processor fees for raffles would be added to the list of items for which a raffle licensee could incur or pay as an item of expense in connection with conducting a raffle event.

MCL 432.102 et seq.

BACKGROUND:

House Bill 5862 of the 2019-20 legislative session, which was reported from the House Regulatory Reform Committee, was introduced to allow internet raffles.

FISCAL INFORMATION:

The bill would increase costs for the Michigan Gaming Control Board by an unknown, but likely significant, amount. The amount of any increased costs would depend upon additional administrative costs and staff resources that may be required to implement the new internet raffle program, such as issuing internet raffle licenses, approving payment processors for the raffles, and providing age clarification and geo-location software to ensure that buyers are of legal age and are located in Michigan. It is unknown whether the revenues from the internet raffle licenses would generate enough funding to cover additional program costs. Under the bill's provisions, a license for an internet raffle would be \$75. It is also possible that offering raffles online could lower state revenues from other similarly situated wagering.

ARGUMENTS:

For:

Many nonprofit charitable organizations are still struggling to make up for revenues lost during the early days of the pandemic when in-person fundraising events had to be canceled. Fundraising events are beginning to be held again, but not all donors feel comfortable attending in-person events yet. Allowing qualifying charities to sell raffle tickets online may increase revenue to the charities and also allow supporters who either cannot attend an event or are not yet ready to reengage in in-person functions to participate in a raffle. The bill would provide regulatory oversight over the internet ticket sales. Although limited to only two events a year, many feel that the bill could still give charities a much needed boost.

Against:

A concern was raised whether the oversight required by the Michigan Gaming and Control Board would be costly, but no further discussion was offered.

POSITIONS:

Representatives of the following entities testified in support of the bill (11-9-21):

- Michigan Charitable Gaming Association
- Ducks Unlimited

The following entities indicated support for the bill (11-9-21):

- Sterling Sportsman Club
- Frankenmuth Sportsman Club
- Bridgeport Gun Club
- National Deer Association, State Advisory Council, and Red Creek Deer Co-op
- Marion Springs Conservation Club
- Michigan Bow Hunters
- Upper Peninsula Sportsmen's Alliance
- Tomahawk Archers
- Saginaw Field and Stream Club
- Presque Isle Turkey Trackers
- Michigan Steelhead and Salmon Fisherman's Association
- Zero Day
- Michigan State Chapter National Wild Turkey Federation
- Ruffed Grouse Society
- Multi-Lakes Conservation association
- St. Joseph County Conservation Club
- Bowfishing Association of Michigan
- Cadillac Sportsman's Club
- Quail Forever
- Livingston County Wildlife & Conservation Club
- NW Michigan Branch, National Deer Association
- Michigan Charter Boat Association
- Kalamazoo Rod & Gun Club
- Michigan Coalition for Responsible Gun Owners
- Pheasants Forever
- Sturgeon for Tomorrow, Black Lake Chapter
- Back Country Hunters and Anglers
- Congressional Sportsmen's Foundation
- Michigan Trappers and Predator Callers Association
- Michigan United Conservation Clubs
- Safari Club International, Flint Regional Chapter
- South Kent Sportsmen's Club

The Michigan Gaming Control Board indicated opposition to the bill. (9-21-22)

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations and does not constitute an official statement of legislative intent.