Legislative Analysis

Mitchell Bean, Director
Phone: (517) 373-8080
http://www.house.mi.gov/hfa

INVESTMENT OF MONEY
IN STATE LOTTERY FUND: MODIFY

House Bill 4715 without amendment
Sponsor: Rep. Bert Johnson
Committee: Regulatory Reform

First Analysis (4-23-09)

BRIEF SUMMARY: The bill would allow money from state lottery revenue to be invested in state bonds and notes.

FISCAL IMPACT: House Bill 4715 would grant Treasury greater flexibility in how the Department can invest Lottery funds and the ability to choose investment strategies that will help realize the best returns in the current marketplace. Under the provisions of the bill, the Department will be able to sell treasury bonds that hold premium value in the current market. The Department anticipates that this investment strategy will generate additional revenue that could not be realized under current law. The bill would increase revenue to the School Aid Fund (SAF). (Net income from lottery activities is deposited into the SAF.) The amount of the revenue increase, while expected to be substantial, is indeterminate at this time because it is dependent upon market conditions at the time the securities are sold.

THE APPARENT PROBLEM:

The State Lottery Fund consists of money received from the sale of state lottery tickets or shares and includes the interest earnings from installment payments of lottery prizes. For instance, when the winner of a large jackpot elects to receive annual payouts over several years, the money is invested by the state treasurer as authorized by law. The money and interest are then used to make the prize payments. Net income from the State Lottery Fund related to lottery operations, which would include interest earnings over the amount needed to make the prize payments, is transferred to the School Aid Fund for K-12 education. According to committee testimony, much of this money in the State Lottery Fund is invested in U.S. Treasury obligations.

Treasury notes and bonds have variable rates of maturity, such as 2, 3, 5, 7, and 10 years for T-bills and 30 years for Treasury bonds. T-bills and bonds issued before the economic downturn have much higher interest rates than similar obligations offered today. Therefore, these older obligations are very sought after by investors looking for a secure instrument with a respectable return.

Seeing as how older U.S. Treasury obligations are currently a hot commodity, so to speak, state officials would like to have the option to sell off some of these investments held in the State Lottery Fund. If some of these older U.S. Treasury obligations could be sold at a premium on today's market, and then reinvested in state-issued obligations having the same governmental full faith and credit backing as the federal program, an additional $20-$30 million may be generated for the School Aid Fund. However, the state treasurer would need statutory authority to do so.

THE CONTENT OF THE BILL:

The bill would amend the McCauley-Traxler-Law-Bowman-McNeely Lottery Act to allow, in addition to other authorized investments, the state treasurer to invest all or part of the money in the State Lottery Fund in state-issued obligations. This would only apply to state-issued obligations determined by the treasurer to be full faith and credit obligations of the state and which provide a rate of return at the time of investment that is not less than the rate of return at the time of investment on U.S. Treasury bonds of comparable maturity. (Funds derived from the sale of tickets or shares of any joint enterprise, e.g., the Mega Millions game, would not be included or affected by the bill.)

MCL 432.41

ARGUMENTS:

For:

The bill would give the state treasurer greater flexibility to explore investment options to maximize returns on investments for the State Lottery Fund, which in turn could generate additional funds to the School Aid Fund that could not be realized otherwise. Since the bill would restrict the new investment option to state-issued obligations having the same full faith and credit obligations as federal counterparts, these investments would be secure.

POSITIONS:

The Department of Treasury supports the bill. (4-22-09)

Legislative Analyst: Susan Stutzky
Fiscal Analyst: Viola Bay Wild

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