

Senate Fiscal Agency
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SFA



BILL ANALYSIS

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Senate Bill 188 (Substitute S-1 as passed by the Senate)
Senate Bill 193 (as passed by the Senate)
Sponsor: Senator Joel D. Gougeon (Senate Bill 188)
Senator Michael J. Bouchard (Senate Bill 193)
Committee: Families, Mental Health and Human Services

Date Completed: 3-4-97

RATIONALE

Under the Lottery Act, before paying a prize of \$1,000 or more, the Bureau of State Lottery must determine whether Department of Treasury records show that a prize winner has a current liability to the State or a support arrearage. If there is a liability to the State or support arrearage, the Lottery Bureau must apply the prize first to the liability to the State, other than the amount of any assigned delinquent account of amounts due and owing to a court, then to the support arrearage, and then to the delinquent accounts due to a court. The remainder of the prize, if any, must then be paid to the lottery winner. Some people believe that the requirement for lottery winners to pay the State also should apply to those who recently received cash assistance from the State under the Social Welfare Act.

his or her spouse or minor children during the past year, up to 50% of the amount of the lottery prize. This requirement would apply to a lottery winner who was currently receiving, or who, in the past year had received ongoing cash assistance under the Act, or whose spouse or minor children were receiving or, in the past year, had received ongoing cash assistance. The liability would constitute a liability to the State for purposes of the Lottery Act.

The Director of the FIA and the State Lottery Commissioner would have to enter into a written agreement that would establish the procedures for implementing the bill. The agreement would have to include the procedure under which the FIA and the Bureau of State Lottery would have to exchange information regarding lottery winnings and individuals liable for receipt of ongoing cash assistance within the past year and any other matter that the parties to the agreement considered necessary to carry out the bill.

CONTENT

Senate Bills 188 (S-1) and 193 would amend the Social Welfare Act and the Lottery Act, respectively, to require that a lottery winner reimburse the State for public assistance payments that he or she or his or her spouse or minor children were receiving, or had received, and to provide for a written agreement between the Family Independence Agency (FIA) and the Bureau of State Lottery to implement the reimbursement requirements.

The bills are tie-barred.

Senate Bill 188 (S-1)

The bill would amend the Social Welfare Act to specify that an individual who won a lottery prize of \$1,000 or more would be liable to the FIA for the amount of cash assistance paid to that individual or

The FIA would have to provide written notice to each prize winner of the amount of the prize winning to be credited against assistance received and the procedure and time frame by which the prize winner could contest that crediting. The notice would have to include the FIA's address and telephone number and the name of the individual the prize winner could contact with respect to the winner's liability for assistance or the payment of that liability. The procedure would have to include the right to a hearing before an administrative law judge.

Regardless of the bill's effective date, the FIA would not have to comply with the requirements to enter into a written agreement with the Lottery Bureau or to provide notice to prize winners of the

amount of a prize winning to be credited against assistance received until April 1, 1998.

The FIA would have to notify each applicant for or recipient of ongoing cash assistance of the bill's requirements. Notice would have to be given within 30 days after the bill's effective date or on the date of application.

The FIA would have to implement the bill to the extent that it was cost-effective.

Senate Bill 193

Currently, the Lottery Act specifies that a lottery winner whose prize is credited toward a liability to the State or for a support arrearage may request a hearing concerning his or her liability by making a written request to the Revenue Commissioner. The bill specifies that, in the case of a liability to the State for receipt of assistance, administrative remedies under Senate Bill 188 would apply instead of a hearing under the Lottery Act.

Proposed MCL 400.43b (S.B. 188)
MCL 432.32 (S.B. 193)

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Individuals who rely on the generosity of taxpayer-supported assistance programs should be obligated to reimburse the State when they are fortunate enough to win a large lottery prize. Reportedly, one Michigan man who had been a long-time recipient of State assistance programs won about \$15 million in the State's Lotto game, yet he was not required to pay back any of the taxpayer money from which he and his family had benefitted over the years. The bills not only would ensure that such an obligation was met, but could result in significant increases in funds available for assistance programs. After enacting a similar requirement, New York State reportedly has recovered over \$1.5 million since April 1996, with the average collection amount being about \$700, meaning that that state has collected welfare reimbursements from about 2,150 lottery winners. The amount collected in New York evidently has greatly surpassed the cost of administering the program. New York's experience has shown that a system of retrieving assistance reimbursements from lottery winners can work and be cost

beneficial to the State. Michigan should follow the lead of New York and implement its own lottery collection program.

Opposing Argument

The bills would impose an unfair financial punishment against the State's lowest income groups, including some of its most vulnerable individuals: poor women and children. Everyone has dreams of improving his or her own economic situation and the poorest among us might have the biggest dreams. The bills would send a message that if you are poor and forced to rely on public assistance, and you get a small windfall through some good fortune, the State will hold you down and seize your winnings.

Response: A person who is in such a desperate situation that he or she must rely on the public assistance safety net should not be spending that money on gambling. If people choose to squander their assistance benefits on the longshot odds of striking it rich in the lottery, they should have to repay the State for those benefits if they are lucky enough to win a substantial lottery prize. In addition, Senate Bill 188 (S-1) provides for collecting only up to 50% of a lottery prize, so the lottery winner still would receive a considerable sum. Further, Senate Bill 188 (S-1) has been revised from its original version (as reflected in Senate Bill 1210 of 1995-96). The proposed prize threshold has been raised from \$600 to \$1,000; the applicable time period has been changed to cover benefits received in the past year instead of benefits received in the previous 10 years; and the benefits to be repaid would be limited to cash assistance rather than all public assistance.

Opposing Argument

The prize threshold for collecting cash assistance reimbursements should be \$3,000, rather than \$1,000. Effective in July 1997, the FIA reportedly will implement a policy to change the exempt cash asset limit for assistance recipients from \$1,000 to \$3,000. The FIA's welfare reform goal is to simplify policies across programs, and the \$3,000 cash asset limit would increase the likelihood of recipient families' maintaining a degree of self-sufficiency. To be consistent with the pending change in FIA policy, Senate Bill 188 (S-1) should provide for collection from lottery winnings of \$3,000 and more.

Response: The bills aim to reduce the State's expenses for cash assistance programs. The proposed threshold already has been increased to \$1,000, and raising it even more would hinder the State's ability to recapture its cash assistance expenses. Moreover, the \$1,000 threshold is

consistent with the Lottery Act's current provisions for collecting from lottery prizes for liabilities owed to the State and child support arrearage.

Opposing Argument

The bills could place an undue administrative burden upon the Lottery Bureau and the FIA. Both agencies would have to check and cross-check lists of recipients and prize winners, so they would have to develop and implement new procedures and systems for the exchange of information. The costs could outweigh the amount of lottery winnings recovered.

Response: Senate Bill 188 (S-1) specifies that the provisions dealing with the interaction of the FIA and the Lottery Bureau would not take effect until April 1, 1998, which should give those entities sufficient lead time to develop the program. Also, the bill explicitly states that the FIA would have to implement its provisions "to the extent that it is cost-effective". If the program cost more to operate than it collected in lottery reimbursements, the FIA would not have to implement it. New York's experience with a similar law, however, indicates that a lottery collection program for assistance reimbursements can be very cost-effective.

Legislative Analyst: P. Affholter

FISCAL IMPACT

It appears that the bills could have an indeterminate fiscal impact on State government. The amendments would allow for the comparison of cash assistance recipients with lottery winners to target possible reimbursement by assistance grant recipients for payments received. This proposed system is similar to the method currently used by the Friend of the Court in conjunction with the Lottery Bureau and the State Department of Treasury to collect support payment arrearage or other liabilities to the State from lottery prizes over \$1,000. It is uncertain how many cash assistance recipients have won or would win lottery prizes of \$1,000 or more. However, the Family Independence Agency could monitor the process in order to determine the actual fiscal impact on State revenues.

Fiscal Analyst: C. Cole
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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.