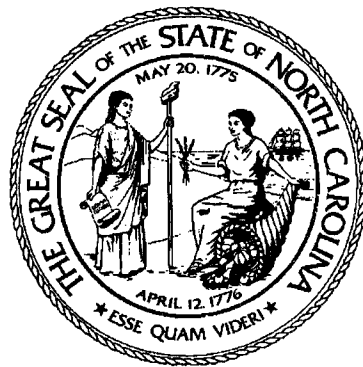


LOTTERY OVERSIGHT COMMITTEE



REPORT TO THE 2011 GENERAL ASSEMBLY OF NORTH CAROLINA

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STATE OF NORTH CAROLINA
LOTTERY OVERSIGHT COMMITTEE

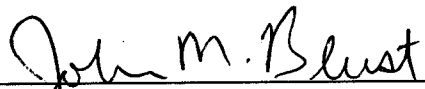


October 17, 2012

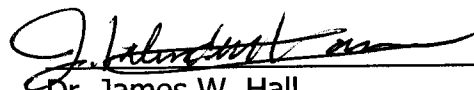
TO THE MEMBERS OF THE 2011 GENERAL ASSEMBLY OF NORTH CAROLINA:

Attached for your consideration is the report to the 2011 General Assembly of North Carolina. This report was prepared by the Lottery Oversight Committee pursuant to G.S. 18C-172.

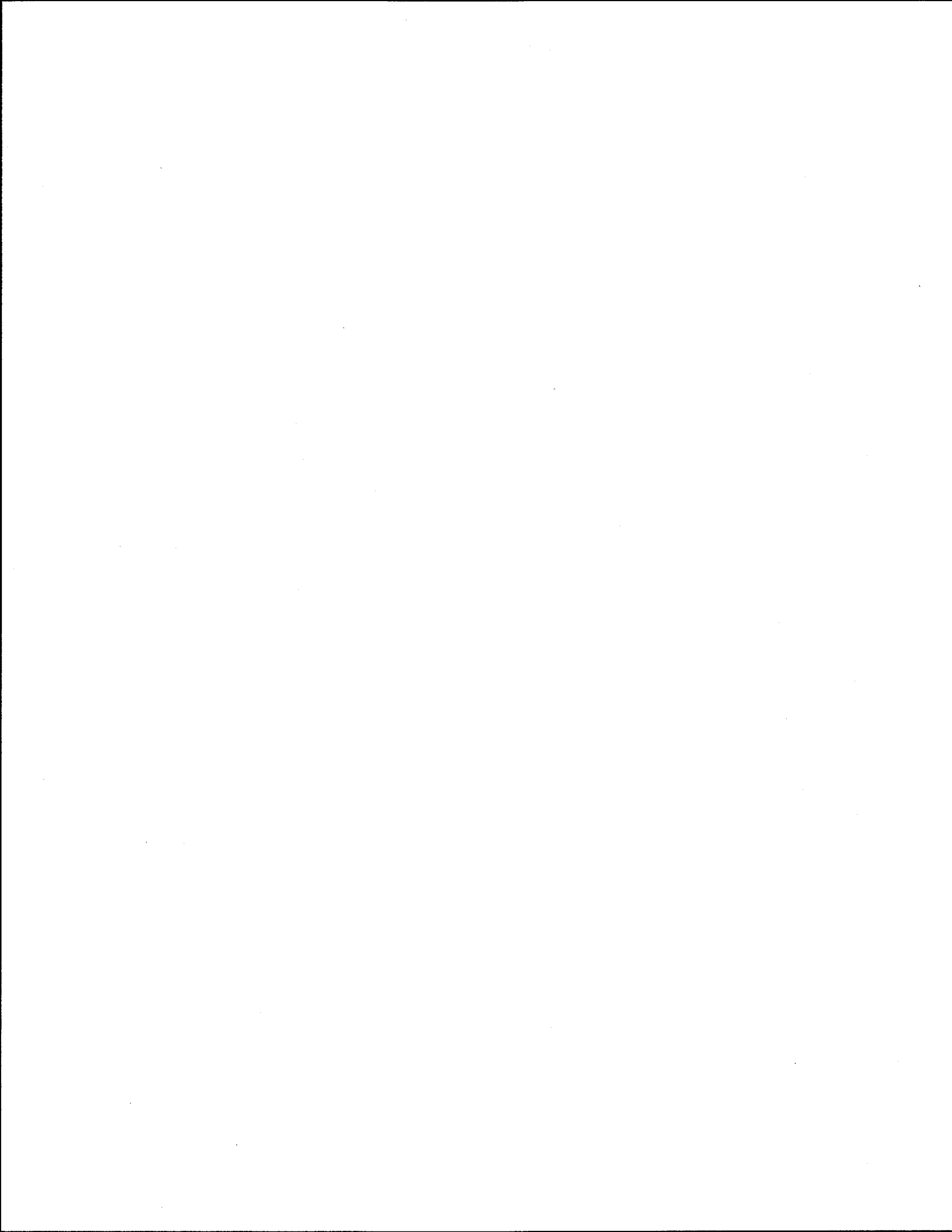
Respectfully submitted,



Representative John M. Blust
Cochair



Dr. James W. Hall
Cochair



LOTTERY OVERSIGHT COMMITTEE

COMMITTEE MEMBERSHIP

Representative John M. Blust, Co-Chair

16 West Jones Street
2208 Legislative Building
Raleigh, NC 27601

Ms. Valencia A. Applewhite

Fayetteville, NC 28314

Ms. Peggy M. Ball

Raleigh, NC 27606

Dr. Ronald E. Copley

Wilmington, NC 28403

Dr. James W. Hall (Co-Chair)

Ahoskie, NC 27910

Mr. Eddie Davis, III

Durham, NC 27713

Mrs. Molly Griffin

Charlotte, NC 28207

Mrs. Margaret Mackie

Gastonia, NC 28054

COMMITTEE STAFF

Erika Churchill

Brian Matteson

Kristin Walker

Jackie Hamby, Committee Assistant

G.S 18C-172
Lottery Oversight Committee.

(a) **Creation and Membership.** – The Lottery Oversight Committee is established. The Committee shall be located administratively in the General Assembly. The Committee shall consist of nine members appointed as provided below. In making appointments, each appointing officer shall select members who have appropriate experience and knowledge of the issues to be examined by the Committee and shall strive to ensure racial, gender, and geographical diversity among the membership.

- (1) Three members shall be appointed by the Speaker of the House of Representatives, at least one being an educator and at least one being a person trained or experienced in financial management.
- (2) Three members shall be appointed by the President Pro Tempore of the Senate, at least one being an educator and at least one being a person trained or experienced in financial management.
- (3) Three members shall be appointed by the Governor, at least one being an educator and at least one being a person trained or experienced in financial management.

(b) **Terms.** – Terms on the Committee are for three years and begin on January 1, except the terms of the initial members, which begin on appointment. A member continues to serve until a successor is appointed. A vacancy shall be filled within 30 days by the officer who made the original appointment.

(c) **Purpose and Powers.** – The Committee shall:

- (1) Review whether expenditures of the net revenues of the Lottery have been in accordance with Article 7 of this Chapter, and study ways to ensure that net proceeds from the Lottery will not be used to supplant education funding but to provide additional funding for education.
- (2) Receive and review reports submitted to the General Assembly pursuant to Chapter 18C of the General Statutes.
- (3) Study other Lottery matters as the Committee considers necessary to fulfill its mandate.

(d) **Reports.** – The Committee shall report its analysis and any findings and recommendations to the General Assembly by September 15 of each year. The Committee may make interim reports to the General Assembly regarding the expenditure of net Lottery revenues.

(e) **Organization.** – The President Pro Tempore of the Senate and the Speaker of the House of Representatives shall each designate a cochair of the Committee. The Committee shall meet at least once a quarter upon the joint call of the cochairs. A quorum of the Committee is six members. No action may be taken except by a majority vote at a meeting at which a quorum is present.

(f) **Funding.** – From funds available to the General Assembly, the Legislative Services Commission shall allocate monies to fund the work of the Committee. Members of the Committee receive subsistence and travel expenses as provided in G.S. 120-3.1 and G.S. 138-5.

(g) **Staff.** – The Legislative Services Commission, through the Legislative Services Officer, shall assign professional staff to assist the Committee in its work. Upon the direction of the Legislative Services Commission, the Director of Legislative Assistants of the Senate and of the House of Representatives shall assign clerical staff to the Committee. The expenses for clerical employees shall be borne by the Committee. (2006-225, s. 1.)

COMMITTEE PROCEEDINGS AND FINDINGS

The Lottery Oversight Committee did not convene during calendar year 2011. The Committee unfortunately suffered the loss of well-regarded co-chair Myron Coulter, who passed away in October 2011. Dr. Coulter's expertise and warm nature are missed, and the Committee appreciates his dedicated service.

In his stead, Representative John M. Blust was appointed to serve as co-chair in April 2012.

The Committee convened for a meeting on April 12, 2012, in advance of the 2012 session of the 2011 North Carolina General Assembly. To start the meeting, Research staff reviewed the statutes governing the Committee's operation, and general overview of the operation of the Lottery Commission. Regarding the Lottery Commission, she informed the committee that it is the governing body of the North Carolina Lottery (Lottery). The Lottery Commission's purpose is to establish and oversee the operation of the Lottery for education and the Lottery Commission is an independent self-supporting and revenue-raising agency of the State. It is housed in the Department of Commerce only for budgetary purposes. It consists of nine members; five appointed by the Governor, two on the recommendation of the President Pro Tem, and two on the recommendation of the Speaker. They serve five year terms and meet at least quarterly and are subject to the Open Meetings Law and Public Records Law.

The Committee is a statutory oversight body, with the responsibility of (i) reviewing whether expenditures of the net revenues of the Lottery have been in accordance with Article 7 of Chapter 18C of the General Statutes, and study ways to ensure that net proceeds from the Lottery will not be used to supplant education funding but to provide additional funding for education; (ii) receiving and reviewing reports submitted to the General Assembly pursuant to Chapter 18C of the General Statutes; and (iii) studying other Lottery matters as the Committee considers necessary to fulfill its mandate. The Committee is to report to the General Assembly on or before September 15th of each year, and may make additional interim reports.

Next, a presentation was made by Fiscal Research Division staff. It reviewed the General Assembly's appropriation of net Lottery proceeds for education programs and detailed the unique role of Lottery receipts in supporting those five programs. The presentation also highlighted key legislative changes after the passage of the Lottery Act. These changes have overridden the distributions called for in the Act. Committee members asked several questions about the mechanics of the Lottery-supported programs and remained concerned about the General Assembly's 2010 decision to reallocate \$26 million in net Lottery receipts to fill a shortfall in federal Medicaid receipts.

To conclude the meeting the Executive Director of the Lottery Commission, Alice Garland, provided an update on the Lottery's operations. Ms. Garland noted that Lottery gross revenues had increased, despite a lukewarm economy and the growth of "Sweepstakes" operations. She reported that the Lottery is focused on annual growth and efficient operations. Further, Ms. Garland reported experiences in other states such as Texas, which lowered its lottery prize percentages and inadvertently shrunk its net return to education.

COMMITTEE RECOMMENDATIONS

The Committee makes the following recommendations:

1. **Lottery net proceeds should only be used for education purposes.** While the General Assembly has not repeated its 2010 practice of allocating Lottery proceeds for non-education programs, the Committee is mindful that this action could be repeated. Any further action would be a major deviation from the intent of the Lottery Act (G.S.18C-164).
2. **Lottery net proceeds should not be used to supplant other basic State support for education programming.** While the Committee has not proscribed a specific test for supplanting and recognizes the economic concerns that have placed pressure on the State budget, it is important that Lottery funds be used to provide additional support for education programs and not replace prior State investments. The Committee will continue to study this issue in future meetings.