

# NORTH CAROLINA GENERAL ASSEMBLY



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## JOINT LEGISLATIVE OVERSIGHT COMMITTEE ON THE NORTH CAROLINA STATE LOTTERY

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### REPORT TO THE 2016 SESSION of the 2015 GENERAL ASSEMBLY OF NORTH CAROLINA

APRIL, 2016

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## TRANSMITTAL LETTER

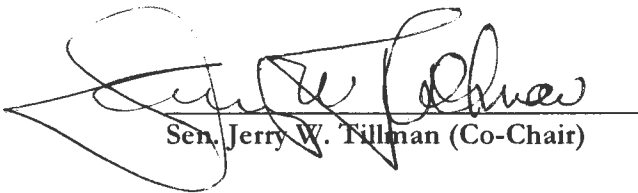
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April 14, 2016

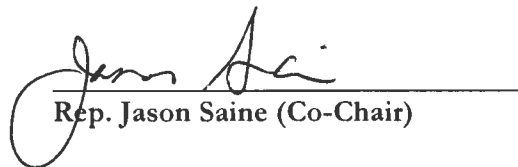
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TO THE MEMBERS OF THE 2016 REGULAR SESSION  
OF THE 2015 GENERAL ASSEMBLY

The **JOINT LEGISLATIVE OVERSIGHT COMMITTEE ON THE NORTH CAROLINA STATE LOTTERY**, respectfully submits the following report to the 2016 Regular Session of the 2015 General Assembly.



Sen. Jerry W. Tillman (Co-Chair)



Rep. Jason Saine (Co-Chair)

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## COMMITTEE PROCEEDINGS

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The Committee on Joint Legislative Oversight Committee on the North Carolina State Lottery met three times after the 2015 Regular Session. The following is a brief summary of the Committee's proceedings. Detailed minutes and information from each Committee meeting are available in the Legislative Library.

### **February 11, 2016**

The Joint Legislative Oversight Committee on the North Carolina State Lottery met on Thursday, February 11, 2016, at 9:30 AM in Room 643 of the Legislative Office Building. Senator Tillman called the meeting to order, and Matthew Meinig, Staff Attorney, Legislative Drafting Division, reviewed the Committee charge. Alice Garland, Executive Director, North Carolina Education Lottery, presented an overview of the North Carolina Lottery. Ms. Garland provided information on growth and changes since the Lottery's inception, revenue generation by source, current revenue projections, and the gaming system and instant ticket contract. After her presentation, Ms. Garland answered questions from Committee members. Following Committee discussion, the meeting was adjourned.

### **March 10, 2016**

The Joint Legislative Oversight Committee on the North Carolina State Lottery met on Thursday, March 10, 2016, at 9:30 AM in Room 643 of the Legislative Office Building. Representative Saine called the meeting to order. Alice Garland, Executive Director, North Carolina Education Lottery, presented on North Carolina Lottery revenue generating options, including potential advertising changes and the possibility of new games or game types, and provided information on how North Carolina's lottery compares to those in other states. Ms. Garland also presented information on Lottery fraud investigations. Following Ms. Garland's presentations, Representative Paul Stam presented on deceptive advertising in the North Carolina Education Lottery. After Committee discussion, the meeting was adjourned.

### **April 14, 2016**

The Joint Legislative Oversight Committee on the North Carolina State Lottery met on Thursday, April 14, 2016, at 9:30 AM in Room 643 of the Legislative Office Building. Mark Senter, Alcohol Law Enforcement Branch Head, North Carolina Department of Public Safety, presented on the responsibilities and authority of Alcohol Law Enforcement to investigate and enforce the Lottery statutes. Matt Meinig, Staff Attorney, Legislative Drafting Division, reviewed the draft report and legislation to be

recommended by the Committee to the 2016 Regular Session of the 2015 General Assembly. Following Committee discussion, the draft legislation was approved, and staff was granted authority to finalize the report and recommended legislation for submission to the General Assembly. Following Committee discussion, the meeting was adjourned.



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## FINDINGS AND RECOMMENDATIONS

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**Finding 1:** The Committee finds that the primary purpose of the North Carolina Education Lottery is to generate additional funds to support education programs. The Committee also concludes that, by increasing the allowable percentage of annual Lottery revenues that the Lottery Commission may use for advertising expenses from one percent (1%) to two percent (2%), an additional \$48.4 million in annual net revenues would be generated to benefit education in fiscal year 2016-17 and \$56 million in subsequent years.

**Recommendation 1:** The Committee recommends that the Lottery Commission be authorized to utilize up to two percent (2%) of annual Lottery revenues for advertising purposes. With the additional annual net Lottery revenues, the Committee strongly encourages the General Assembly to appropriate additional funds to help improve our public schools, particularly those with the most significant needs. The Committee recommends that the majority of the projected additional revenues be used to provide additional pay for high-quality teachers that choose to serve in our hardest-to-staff schools or in the highest-need subject areas like math, science and special education. In addition, the Committee recommends that some of these funds should be used to reward high-performing teachers that are getting excellent results in these schools and subjects. Similarly, the Committee recommends using some of the additional net Lottery revenue for recruiting and retaining outstanding principals to high-need schools.

**Finding 2:** The Committee finds that the primary purpose of the North Carolina Education Lottery is to generate additional funds to support education programs. The Committee concludes that, based on the information provided by the North Carolina Lottery Commission staff, the North Carolina Lottery could expand into new lottery games, within limited statutory constraints.

**Recommendation 2:** The Committee recommends that the North Carolina Lottery Commission not operate, or participate in, any lottery game utilizing a slot machine or a video lottery terminal.

**Finding 3:** The Committee finds that, with respect to distribution of funds held by the Lottery, unclaimed prizes are currently divided equally between additional prizes and the Education Lottery Fund. The Lottery Commission has indicated in the past that increased prizes result in increased revenue to the Lottery. The Committee finds that the Lottery Commission currently has statutory flexibility in determining the optimal amount in prizes that will generate the greatest return to the State.

**Recommendation 3:** The Committee recommends that the portion of unclaimed prize money currently directed to support additional prizes should be redirected to the Education Lottery Fund.

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## COMMITTEE MEMBERSHIP

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2015-2016

**President Pro Tempore of the Senate**  
**Appointments:**

Sen. Jerry W. Tillman (Co-Chair)

Sen. Tom Apodaca

Sen. Harry Brown

Sen. Don Davis

Sen. Rick Gunn

Sen. Floyd B. McKissick, Jr.

Sen. Andy Wells

**Speaker of the House of Representatives**  
**Appointments:**

Rep. Jason Saine (Co-Chair)

Rep. John R. Bell, IV

Rep. Rob Bryan

Rep. Nelson Dollar

Rep. Edward Hanes, Jr.

Rep. Jon Hardister

Rep. Pat B. Hurley

Rep. Harry Warren (Advisory Member)

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## COMMITTEE CHARGE/STATUTORY AUTHORITY

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### Chapter 120.

### General Assembly.

#### Article 34.

Joint Legislative Oversight Committee on the North Carolina State Lottery.

#### **§ 120-295. Creation and membership of the Joint Legislative Oversight Committee on the North Carolina State Lottery.**

(a) The Joint Legislative Oversight Committee on the North Carolina State Lottery is established. The Committee consists of 14 members as follows:

- (1) Seven members of the Senate appointed by the President Pro Tempore of the Senate, at least one of whom is a member of the minority party; and
- (2) Seven members of the House of Representatives appointed by the Speaker of the House of Representatives, one of whom is a member of the minority party.

(b) Terms on the Committee are for two years and begin on the convening of the General Assembly in each odd-numbered year. Members may complete a term of service on the Committee even if they do not seek reelection or are not reelected to the General Assembly, but resignation or removal from service in the General Assembly constitutes resignation or removal from service on the Committee.

(c) 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.

#### **§ 120-296. Purpose and powers of Committee.**

The Joint Legislative Oversight Committee on the North Carolina State Lottery shall examine, on a continuing basis, the operations of the North Carolina State Lottery. The Committee shall make ongoing recommendations to the General Assembly on ways to improve the operations and success of the lottery. The Committee shall do all of the following in conducting its examination of the North Carolina State Lottery:

- (1) Examine the administration, budgeting, and policies of the lottery.
- (2) Assess the lottery's efficiency and effectiveness.
- (3) Review other state lottery policies and procedures to identify improvements and options for maximizing the transfer of lottery funds to the Education Lottery Fund.
- (4) Study any other matters that the Committee considers necessary to fulfill its mandate.

#### **§ 120-297. Organization of Committee.**

(a) The President Pro Tempore of the Senate and the Speaker of the House of Representatives shall each designate a cochair of the Joint Legislative Oversight Committee on the North Carolina State Lottery. The Committee shall meet upon the joint call of the cochairs.

(b) A quorum of the Committee is five members. No action may be taken except by a majority vote at a meeting at which a quorum is present. While in the discharge of its official duties, the Committee has the powers of a joint committee under G.S. 120-19 and G.S. 120-19.1 through G.S. 120-19.4.

(c) Members of the Committee shall receive subsistence and travel expenses as provided in G.S. 120-3.1. The Committee may contract for consultants or hire employees in accordance with G.S. 120-32.02. 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 Directors 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.

**§ 120-298. Reports to Committee.**

Whenever the North Carolina State Lottery is required by law to report to the General Assembly or to any of its permanent committees or subcommittees on matters affecting the lottery, it shall transmit a copy of the report to the cochairs of the Joint Legislative Oversight Committee on the North Carolina State Lottery.

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## LEGISLATIVE PROPOSALS

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GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2015

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BILL DRAFT 2015-MQz-90 [v.6] (03/10)

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)  
04/13/2016 05:10:28 PM

Short Title: Lottery- JLOC Recommendations.

(Public)

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Sponsors:

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Referred to:

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1 A BILL TO BE ENTITLED  
2 AN ACT TO MAKE CHANGES TO THE NORTH CAROLINA STATE LOTTERY BASED  
3 UPON THE RECOMMENDATIONS OF THE JOINT LEGISLATIVE OVERSIGHT  
4 COMMITTEE.  
5 The General Assembly of North Carolina enacts:  
6 SECTION 1. G.S. 18C-103(4) reads as rewritten:  
7 "§ 18C-103. Definitions.  
8 As used in this Chapter, unless the context requires otherwise:  
9 ...  
10 (4) "Game" or "lottery game" means any procedure or amusement authorized by  
11 the Commission where prizes are distributed among persons who have paid,  
12 or unconditionally agreed to pay, for tickets or shares that provide the  
13 opportunity to win those prizes and does not utilize a video gaming machine  
14 as defined in ~~G.S. 14-306.1(e)~~. G.S. 14-306.1A(b) or a video lottery  
15 terminal."  
16 SECTION 2. G.S. 18C-162 reads as rewritten:  
17 § 18C-162. Allocation of revenues.  
18 (a) The Commission shall allocate revenues to the North Carolina State Lottery Fund in  
19 order to increase and maximize the available revenues for education purposes, and to the extent  
20 practicable, shall adhere to the following guidelines:  
21 (1) At least fifty percent (50%) of the total annual revenues, as described in this  
22 Chapter, shall be returned to the public in the form of prizes.  
23 (2) At least thirty-five percent (35%) of the total annual revenues, as described  
24 in this Chapter, shall be transferred as provided in G.S. 18C-164.  
25 (3) No more than eight percent (8%) of the total annual revenues, as described  
26 in this Chapter, shall be allocated for payment of expenses of the Lottery.

1                    ~~Advertising expenses shall not exceed one percent (1%) of the total annual~~  
2                    ~~revenues.~~

3                    (4) No more than seven percent (7%) of the face value of tickets or shares, as  
4                    described in this Chapter, shall be allocated for compensation paid to lottery  
5                    game retailers.

6                    (a1) Advertising costs shall not exceed two percent (2%) of the total annual revenues, as  
7                    described in this Chapter.

8                    (b) To the extent that the expenses of the Commission are less than eight percent (8%)  
9                    of total annual revenues, the Commission may allocate any surplus funds:

10                    (1) To increase prize payments; or

11                    (2) To the benefit of the public purposes as described in this Chapter.

12                    (c) Unclaimed prize money shall be held separate and apart from the other revenues and  
13                    allocated as follows:

14                    ~~(1) Fifty percent (50%) to enhance prizes under subdivision (a)(1) of this section.~~

15                    ~~(2) Fifty percent (50%) to the Education Lottery Fund to be allocated in accordance~~  
16                    ~~with G.S. 18C-164(c)."~~

17                    **SECTION 3.** G.S. 18C-163(b) reads as rewritten:

18                    "(b) Expenses of the lottery shall also include all of the following:

19                    (1) a~~A~~ transfer of two million one hundred thousand dollars (\$2,100,000)  
20                    annually to the Department of Public Safety, Alcohol Law Enforcement  
21                    Branch, for gambling enforcement activities.

22                    (2) Advertising costs."

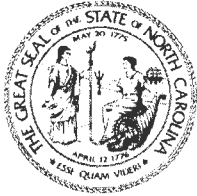
23                    **SECTION 4.** This act becomes effective July 1, 2016.

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## SUPPORTING DOCUMENTATION

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### Bill Draft 2015-MQz-90: Lottery- JLOC Recommendations.

2016-2017 General Assembly

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<b>Committee:</b>	<b>Date:</b>	April 14, 2016
<b>Introduced by:</b>	<b>Prepared by:</b>	Kelly Tornow, Erika Churchill, Matthew Meinig,
<b>Analysis of:</b> 2015-MQz-90		Committee Co-Counsel

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**SUMMARY:** *Bill Draft 2015-MQz-90 would: (i) provide that a video lottery terminal is not a "game" or "lottery game" allowed under statute, (ii) increase the allowable percentage of total annual Lottery revenues that the Lottery Commission may use for advertising expenses from one percent to two percent, and (iii) redirect all unclaimed prize money to the Education Lottery Fund.*

**CURRENT LAW:** G.S. 18C-103 defines terms used in Chapter 18C of the General Statutes.

G.S. 18C-162(a) requires the North Carolina State Lottery Commission to allocate revenues to the North Carolina State Lottery Fund in order to increase and maximize the available revenues for education purposes. The Commission also must, to the extent practicable, adhere to the following guidelines:

- Return at least 50% of the total annual revenues to the public in the form of prizes.
- Transfer at least 35% of the total annual revenues as provided in G.S. 18C-164, which governs the transfer of net revenues.
- Allocate no more than 8% of the total annual revenues for payment of Lottery expenses. Advertising expenses cannot exceed 1% of the total annual revenues.
- Allocate no more than 7% of the face value of tickets or shares for compensation paid to lottery game retailers.

G.S. 18C-162(b) provides that if the Commission's expenses are less than 8% of total revenues, the Commission can allocate any surplus funds to increase prize payments or to the benefit of the public purpose.

G.S. 18C-162(c) requires that unclaimed prize money be held separate and apart from other revenues and that 50% be used to enhance prizes and 50% be allocated to the Education Lottery Fund as provided in G.S. 18C-164(c), which mandates that the General Assembly appropriate the remaining net revenue of the Education Lottery Fund annually in the budget for education-related purposes, based on estimates

of lottery net revenue to the Education Lottery Fund provided by the Office of State Budget and Management and the Fiscal Research Division.

G.S. 18C-163 enumerates what may be included as Lottery expenses.

**BILL ANALYSIS:** Draft 2015-MQz-90 would correct an incorrect citation for video gaming machines and would prohibit the North Carolina State Lottery Commission from authorizing video lottery terminals without General Assembly approval.

In addition, the draft would increase the allowable percentage of total annual Lottery revenues that the Lottery Commission may use for advertising expenses from one percent to two percent. The two percent advertising change would come out of the eight percent cap on total expenses and would not modify any of the other percentages.

The draft would also amend the statutory allocation of unclaimed prize money by redirecting the 50% of unclaimed prizes currently directed to support prizes, resulting in all unclaimed prize money being allocated to the Education Lottery Fund.

**EFFECTIVE DATE:** This act becomes effective July 1, 2016.