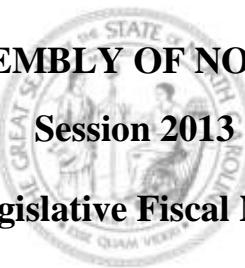


# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

## Legislative Fiscal Note



**BILL NUMBER:** House Bill 156 (Second Edition)

**SHORT TITLE:** Honest Lottery Act.

**SPONSOR(S):** Representatives Stam, L. Hall, Glazier, and Hardister

### FISCAL IMPACT

Yes

No

No Estimate Available

State Impact	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Special Fund Revenues:	0	0	0	0	0
Special Fund Expenditures:	(550,454)	(590,070)	(604,940)	(617,889)	(630,743)
State Positions:	0.0	0.0	0.0	0.0	0.0
NET STATE IMPACT	\$550,454	\$590,070	\$604,940	\$617,889	\$630,743

**PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:** Lottery Commission, University of North Carolina, Department of Public Instruction, Department of Administration

**EFFECTIVE DATE:** July 1, 2013

#### TECHNICAL CONSIDERATIONS:

Yes - See Technical Considerations Section

\* Expenditures are adjusted based on inflation rates from Moody's.com

### BILL SUMMARY:

Amends G.S. 18C-114 by requiring the North Carolina State Lottery Commission (Commission) to ensure that (1) advertising that displays a total amount of payments to be paid over a period of time must also indicate the present value<sup>1</sup> of the total prize in current dollars, (2) advertising that states probability of winning a prize cannot omit the value of the lowest prize to be won, (3) advertising that states the odds of winning must at least disclose the odds of winning the prize with the largest value, and (4) no advertising or sponsorship can take place in connection with any high school or collegiate sport or sporting event.

<sup>1</sup> Present Value – the current capital value of a future income or outlay or a series of such incomes or outlays. It is computed by the process of discounting at a predetermined rate of interest. Source: *Dictionary.com*

Amends G.S. 18C-115 to require the Lottery Commission to provide an annual report on the allocation of proceeds from lottery funds to the Governor, State Treasurer, and to the General Assembly. The Commission will be required to use established communications channels to inform the public about the proceeds of lottery funds.

Amends G.S. 18C-130, by limiting the types of lottery games that can be used by the Commission to “draw-style” and “instant scratch-off” games unless the General Assembly approves otherwise. Prevents the use of cartoon characters in games using tickets whether or not the primary appeal is to minors. Prohibits the use of unfair information in advertising.

Requires the Commission to post on its website the tabulations of the estimated number of prizes and estimated odds of winning each prize.

Requires the University of North Carolina (UNC) to develop and make available to the Department of Public Instruction professional development and course materials explaining lottery probabilities and other mathematical features. These materials should be developed with an eye towards inclusion in high school civics and mathematics courses. UNC will also complete research on the patterns of lottery participation and lottery ticket sales, including socioeconomic factors of each.

Amends G.S. 18C-132(a) to prohibit lottery advertising or winning number announcements from referencing the role of the required accountant or auditor in North Carolina lottery drawings.

Amends G.S. 18C by adding a new G.S. 18C-174, establishing Wake County as the venue for any civil action under G.S. 18C or for any civil action under G.S. 75C for violation of G.S. 18C.

Amends G.S. 18C-152(c), making technical and clarifying changes. Also requires Commission contractors to disclose demographic data for its employees. If 20% (was, 25%) of the contract is subcontracted, the contractor must also disclose demographics for the subcontractor's employees.

Effective July 1, 2013, with new venue requirements not affecting pending litigation.

Source: Bill Digest

## **ASSUMPTIONS AND METHODOLOGY:**

### **General Information**

The Lottery Commission is an enterprise agency for the State of North Carolina that is fully receipt supported. Annually, the lottery generates revenues from ticket sales and uses the funds to cover:

- Prizes awarded under the program;
- Administrative costs (including advertising/marketing); and,
- Retailer commissions.

Revenues net of operating costs support state-funded programs such as:

- Classroom teachers
- Public school capital
- NC Pre-K program
- UNC need-based financial aid
- Scholarships for Needy Students

## **Section 1**

Section 1 of the bill provides additional regulatory requirements on information to be contained in lottery advertising.

Specifically, the bill requires:

- Advertising that promotes a total payment amount to be distributed over a period of time must state the present value of the prize;
- Advertising that displays the odds of winning a prize must also disclose:
  - The odds of winning the largest available prize; and,
  - The value of the lowest available prize.

The Lottery Commission does not anticipate any costs from incorporating the changes to statistical probability disclaimers provided in lottery advertisements. No fiscal impact is anticipated.

Section 1 also prohibits advertising and sponsorship at athletic events involving high school and collegiate sports. While the Lottery Commission has not engaged in advertising at high school athletic events, the Commission does engage in marketing at collegiate athletic events. Following the creation of the state lottery, the Lottery Commission began marketing at collegiate athletic events. After approximately one year of advertising, the Lottery Commission was no longer permitted to market the lottery at University of North Carolina (UNC) system athletic events.

Beginning in the 2012-13 fiscal year, the Lottery Commission was permitted and resumed marketing at UNC system institutions. For the 2012-13 fiscal year, the Lottery Commission budgeted \$906,000 for university marketing. Table 1 below displays the actual annual contractual cost with each respective university:

***Table 1: University Advertising Costs***

University	Cost
NC State	\$145,000
NC A&T	\$12,500
Fayetteville State	\$5,000
UNC – Chapel Hill	\$100,000
Appalachian State	\$55,000

<b>University</b>	<b>Cost</b>
Western Carolina	\$3,760
UNC-Charlotte	\$20,000
UNC-Wilmington	\$11,000
Wake Forest	\$103,194
Duke	\$170,000
<b>Total</b>	<b>\$625,454</b>

Since the lottery does not have a long history of advertising at collegiate athletic events, insufficient data is available to isolate the sales impact of these efforts. Therefore, Fiscal Research estimates that prohibiting marketing at high schools and universities will result in \$625,454 in direct, recurring savings for the Lottery Commission. However, these direct savings may not be fully realized due to the possibility that marketing restrictions will reduce ticket sales. Also, the savings may not be fully realized if the Lottery Commission directs the funds that would be spent on collegiate marketing to other marketing strategies.

### **Section 1.5**

Section 1.5 adds a new reporting requirement to the Lottery Commission. The bill states that the Lottery Commission will provide an annual report on the allocation of expenditures of lottery proceeds. The report will be submitted to the Governor, State Treasurer, the General Assembly, and be made publicly available through Lottery Commission communications. No fiscal impact is anticipated.

### **Section 2**

Section 2 of the bill limits the type of games offered by the Lottery Commission to only draw-style and instant scratch-off games. The General Assembly must approve any additional types of lottery games. Section 2 also requires the Lottery Commission to maintain, on its website, the estimated odds of winning each prize at the time the lottery game is offered to the public. No fiscal impact is anticipated.

Section 2 also directs the University of North Carolina to develop course and professional development materials explaining probabilities and other mathematical features of lottery games to include as a component of high school courses in civics and mathematics. Once the course and professional development materials are developed, the University of North Carolina will make the materials available to the Department of Public Instruction and the Office of Non-Public Education in the Department of Administration to be available to schools.

The University of North Carolina estimates the one-time cost for the curriculum component to be \$25,000. This estimate assumes that curriculum would be assembled from information already available and that it would be made available to the Departments of Public Instruction and Administration through posting on a website (rather than producing hard copy materials). This estimate is similar to costs estimated for an older, but similar program. In 1999, the State of Louisiana developed and implemented a similar type of curriculum. Louisiana's Fiscal Research

Division anticipated \$24,000 in one-time costs to develop the curriculum in connection with Harvard University. Implementation costs were also estimated (\$95,000 in annual costs for implementation, \$25,000 for supplies and \$70,000 to implement the program), however the UNC estimate assumes that information would be made available through posting on a website. In addition, several publicly available sources already have lesson plans and instructional components related to probability not required by this bill.

The University of North Carolina is also tasked with commissioning or performing research on patterns of:

- Lottery participation as to frequency, amount spent, family income levels, and other socioeconomic factors; and,
- Lottery ticket sales geographic locations in comparison to the frequency, amount spent, family income levels, and other socioeconomic facts of the neighborhoods.

Research commissioned or performed by the University of North Carolina under this bill will be made available to the Legislative Research Commission.

Texas House Bill 947 was passed in 1993 and requires the Texas Lottery Commission to conduct a demographic study of lottery players every two years to be reported to the commission, the governor, and the legislature. Since at least 2006, the commission has conducted the survey annually by paying a state university to conduct the survey and produce the accompanying report. For the past three years, the survey has been conducted by the Hobby Center for Public Policy at the University of Houston.

The Texas Lottery Commission has paid \$50,000 to the Hobby Center each of the past three years. Expenses are broken down in Table 2:

**Table 2: Lottery Survey Expenses**

Staff	\$20,600
Surveyor's Wages	\$17,000
Traditional Phone Sample	\$5,200
Cell Phone Sample	\$5,200
Travel	\$2,000
<b>Total Cost</b>	<b>\$50,000</b>

The Texas Lottery Commission indicated that if newer technology were used, instead of the phone sampling they require, the cost to conduct the survey could be reduced.

The University of North Carolina concurs with this estimate of \$50,000 per year for the research requirements under this bill.

As mentioned, the bill requires the materials developed by UNC to be made available to the Department of Public Instruction and Office of Non-Public Education in the Department of Administration. The Department of Public Instruction must provide the resources to local school

districts for use as a component of high school coursework in civics and mathematics. Since these materials will be made available electronically, there are no costs estimated for sharing these resources with local school districts.

### **Section 3**

Section 3 of the bill restricts the reference to the role of the auditor or accountant in any advertising or winning number announcement associated with a North Carolina lottery game. The Lottery Commission indicates that the announcement of the role of the auditor or accountant is used to publicly display compliance with G.S. 18C-132(a)(2) requiring lottery drawings to be witnessed by an independent accountant or auditor. There is no financial benefit received by the Lottery Commission for this announcement. No fiscal impact is anticipated.

### **Section 4**

Section 4 of the bill directs all civil actions for potential violations of Chapter 18C of the General Statutes to occur in Wake County. No fiscal impact is anticipated.

### **Section 5**

Section 5 of the bill makes statutory wording changes and requires additional information to be disclosed by potential contractors performing services for the Lottery Commission. No fiscal impact is anticipated.

**SOURCES OF DATA:** University of North Carolina, Louisiana Fiscal Research, Texas Lottery Commission, North Carolina Lottery Commission, Department of Public Instruction

### **TECHNICAL CONSIDERATIONS:**

Section 1 of the bill directs the Lottery Commission to display the present value of any lottery prizes that are paid to the winner over time. As the language is currently read, the Lottery Commission would be responsible for determining assumptions to use for present value analysis of the prizes.

**FISCAL RESEARCH DIVISION: (919) 733-4910**

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**APPROVED BY:** Mark Trogdon, Director  
Fiscal Research Division

**DATE:** March 15, 2013



**Signed Copy Located in the NCGA Principal Clerk's Offices**