

December 20, 2010

**North Carolina Education Lottery Oversight Committee
Report of October 28, 2010, Meeting
Myron L. Coulter, Co-Chair, Presiding**

**The Honorable Marc Basnight
President Pro Tem, North Carolina Senate**

**The Honorable Joe Hackney, Speaker
North Carolina House of Representatives**

Dear Senator Basnight and Speaker Hackney:

Herein is the report to the General Assembly on the work of the Lottery Oversight Committee (the Committee) as required by G.S. 18C-172(d). The Committee has met twice since our last report, due to the 2010 legislative session and the budgetary issues which continued to exist during that session.

Some Committee memberships have changed since our last report. The terms of Ms. Patricia Morton, Ms. Dorothy Coplon, and Ms. Betty Oxendine Mangum, expired. Two new appointments were made by Speaker Hackney: Ms. Molly Griffin, of Charlotte, and Ms. Valencia Applewhite, of Fayetteville. We welcome Ms. Griffin and Ms. Applewhite to the Committee and extend appreciation to Ms. Coplon, Ms. Mangum, and Ms. Morton for their good work on the Committee. Two vacancies presently exist in the Committee's membership.

During our last two meetings the Committee continued its study process by raising many questions regarding the use of lottery funds during this period of budgetary crisis. These matters were passed on to various offices in the administrative and legislative branches. We received responses which were, in general, to the satisfaction of the Committee. The Committee extends its appreciation to Ms. Alice Garland, Acting executive director of the NC Education Lottery; Mr. Brian Matteson of the Legislative Fiscal Research Division; and Mr. Charles Perusse, State Budget Director for their presentations to the Committee.

Myron L. Coulter

Senator Marc Basnight
Representative Joe Hackney
Page 2
December 20, 2010

It is important to iterate that Committee members clearly understand that the economy has presented and continues to present significant challenges for our state, including pending further reductions in State appropriations for all levels of education. We acknowledge that the General Assembly and the Administration have been forced to take actions, including those impacting the NC Education Lottery, which it would not have taken in more normal economic times. The Committee hopes that these actions will be short-lived and that the Lottery can quickly return to the goals and distributions that the legislature and the majority of the citizens of North Carolina expected when the Lottery began.

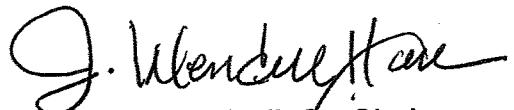
However, extremely serious concern has been raised by Committee members over the trend of reducing the percentage of net revenues below the 35% specified in the original legislation (G.S. 18C-162 and 18C-164). While indeed there was an increase in actual dollars allocated to Education, the permissive amendment of 2007 allows the Lottery Commission to deviate from the original specified 35% "to the extent practicable", as determined by the Lottery Commission.

Also, Committee members are very concerned about these three probabilities: (1) lottery proceeds have supplanted rather than supplemented education funding; (2) lottery proceeds have been used to cover the Medicaid spending gap; (3) the Lottery Reserve Fund must be returned to its originally intended levels in order to provide protection from future uncertainty.

Therefore, in view of these concerns, the Committee makes the following recommendation: that the 2011 General Assembly act to return to the 35% of net revenues which must be allocated to Education, and, further, that those funds be used for education in compliance with the terms specified in Chapter 18C-164 (?) of the State Education Lottery Act of 2005.

Respectfully submitted,


Myron L. Coulter, Co-Chair


J. Wendell Hall, Co-Chair

MLC/JWH: rs

C: Members, Lottery Oversight Committee