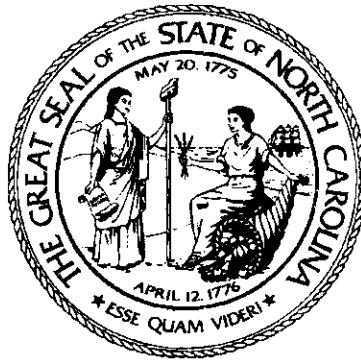


LOTTERY OVERSIGHT COMMITTEE



REPORT TO THE 2013 GENERAL ASSEMBLY OF NORTH CAROLINA

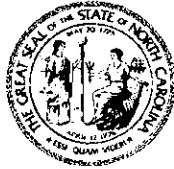
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STATE OF NORTH CAROLINA
LOTTERY OVERSIGHT COMMITTEE



September 18, 2013

TO THE MEMBERS OF THE 2013 GENERAL ASSEMBLY OF NORTH CAROLINA:

Attached for your consideration is the report to the 2013 General Assembly of North Carolina. This report was prepared by the Lottery Oversight Committee pursuant to G.S. 18C-172.

Respectfully submitted,

A handwritten signature in cursive script, reading "John M. Blust".

Representative John M. Blust
Cochair

A handwritten signature in cursive script, reading "Richard N. Fisher, Jr.". The signature is written over a horizontal line.

Richard N. Fisher, Jr.
Cochair

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LOTTERY OVERSIGHT COMMITTEE

COMMITTEE MEMBERSHIP

Representative John M. Blust, Co-Chair
16 West Jones Street
2208 Legislative Building
Raleigh, NC 27601

Richard N. Fisher, Jr. (Co-Chair)
Burlington, NC 27215

Representative Pat B. Hurley
532 Legislative Office Building
Raleigh, NC 27601

Mr. Eddie Davis, III
Durham, NC 27713

Dr. David Jones
Wake Forest, NC 27587

Ms. Livia P. Freeman
Wilmington, NC 28401

Ms. Peggy M. Ball
Raleigh, NC 27606

Mr. Robert K. Hight
Fayetteville, NC 28304

Dr. Ronald E. Copley
Wilmington, NC 28403

COMMITTEE STAFF

R. Erika Churchill
Brian Matteson
Timothy Dale

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 convened for a meeting on January 16, 2013, in advance of the 2013 Session of the General Assembly.

Ms. Alice Garland, Executive Director of the North Carolina Lottery, was recognized for an update on the current activities of the Lottery Commission. She reminded the committee of the Lottery Commission's Mission which is *"to increase and maximize the available revenues for education purposes."* She reviewed a power point presentation, discussing sales, audits, and information sharing.

Committee staff, Ms. Erika Churchill, Staff Attorney, Research Division was recognized to discuss proposals that may be brought up regarding changes to the North Carolina Lottery during the upcoming 2013 legislative session. Some of the topics discussed were in regard to advertising by the Lottery; that is, altering how the Lottery advertises, as well as a change in the name of the Lottery to delete the name "education" from the advertising. Mr. Davis and Mr. Hall asked to go on record to indicate their support to maintain the word "education" with the understanding that the proceeds go towards education in the state.

Committee staff, Brian Matteson, Fiscal Analyst, Fiscal Research Division was recognized to provide the members information to previous questions focusing on whether Lottery proceeds have supplanted General Fund expenditures, and provided information on a metrics for supplantation.

Chairman Blust reminded the members that the Committee is charged to meet quarterly, but not during legislative sessions. Therefore, the next meeting date should take place after the conclusion of the 2013 session of the General Assembly, and at that time any action affecting the North Carolina Lottery by the 2013 Legislature would be known.

The Committee met again on September 18, 2013. New appointments by the President Pro Tempore of the Senate and the Speaker of the House resulted in changes to the membership of the Committee. The Committee staff, Ms. Churchill, 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. 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

- 1) 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.
- 2) Receiving and reviewing reports submitted to the General Assembly pursuant to Chapter 18C of the General Statutes.

- 3) 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.

Mr. Matteson and Ms. Churchill reviewed the general statutes governing the North Carolina Lottery, and the changes made by the 2013 General Assembly.

Ms. Garland, Executive Director of the Lottery Commission, then provided an update on the Lottery's operations over the last year, including estimates of revenues in the first quarter of 2013-14.

COMMITTEE RECOMMENDATIONS

The Committee makes the following recommendations:

1. **Lottery net proceeds should only be used for education purposes.** The Committee discussed the legislative changes with regards to the formulas used for distribution of the net proceeds of the Lottery.
2. **Lottery net proceeds should not be used to supplant other basic State support for education.** While the Committee has been unable to identify a specific test or metric to determine if supplantation has occurred, the Committee consistently expressed concerns that it is important Lottery funds be used to provide additional support for education programs and not to replace prior State investments.