SB 744, "Appropriations Act of 2014"

North Carolina House of Representatives

Senate Appropriations - Lottery

June 12, 2014

Edited for clarity and grammar

The audio is available on CD

Co-Chairman Sen. Harry Brown

Co-Chairman Sen. Kathy Harrington - presiding

Co-Chairman Sen. Neal Hunt Co-Chairman Sen. Brent Jackson

Chair - Senator Kathy Harrington

So the main purpose of this meeting is to review the budget differences between the House and the Senate. The budget's not covered by subcommittee review, so [*I've been*] conducted this week. And we're particularly interested in some of the major differences, especially differences in the lottery and salaries and benefits.

Is the lottery prepared?...Alright, we're going to stand at ease for just a moment...

Alice Garland, would you please come to the podium?...If you would please come to the well, thank you, for your presentation.

While she's making her way, some of the most fundamental differences between the House and Senate budgets are related to the lottery. Alice Garland of the North Carolina Education Lottery is here to explain the differences in the lottery revenue estimates in the House and Senate budgets. Later this week Fiscal Research and OSBM will provide us with a revised estimate on lottery revenues.

Ms. Garland?...You'll need to turn your microphone on.

Alice Garland: Good morning. I'm Alice Garland, Executive Director of the North Carolina Education Lottery. I have with me in the audience my Commission Chair Keith Ballantine.

Thank you so much for this opportunity to talk to you today about lottery sales and advertising. The Education Lottery is a sales and marketing organization. As such, advertising is...We advertise our products in a very similar manner to all other retail sales enterprises. Our mission, as designated in our legislation, is for us to maximize sales in order for us to maximize our return to education.

Our instant ticket sales in this fiscal year that ends in a couple of weeks are a testimony to the effectiveness of lottery advertising. In Fiscal 14 we changed our advertising strategy. We put more of our advertising dollars into primetime. We conducted our First Tuesday campaign, and we advertised an entire group of tickets being launched as opposed to focusing on just one ticket.

These changes produced a 16% increase in instant ticket sales in that product, which I think shows what advertising can do.

The House Appropriations Chairs, with very short notice, asked the lottery to provide scenarios for increasing the return to education by various dollar levels. We provided multiple scenarios, all of them based on today's advertising conditions. None of the scenarios that we provided took into account additional advertising restrictions.

You have requested that we discuss three different scenarios: advertising at $\frac{1}{2}$ %, at 1% and 2% - and the 1% is what we're allowed in our statute today – and what the impact on these scenarios would be of additional restrictions on advertising. As you review these scenarios, as we review them together, please keep in mind the lottery primarily sells at gas and convenience stores, and we are competing for our share of the players' disposable income. Other retail products in those stores, largely snacks and beverages, spend anywhere from 4 to 10% of their sales on advertising.

I'd like to turn to the handout I believe you all have. It's a multicolored column, and these are the scenarios that we were asked to present. I just want to quickly review the two columns on the right. These are both Fiscal 15, this upcoming fiscal year budgets. We provided the far-right column in March of 13 for the biennium budget, and then the second column we revised in April of this year. We had more Fiscal 14 sales on which to base a revised budget. You'll note, if you look down at the dark green line at the bottom, that between March of 13 and April 14, we increased the projection by about \$20 million. You have budgeted that \$20 million. That \$20 million is in your budget for Fiscal 15.

So if we look at the middle green column labeled "June 3, 2014, Fiscal 15 Commission," this is the budget as adopted by the Education Lottery Commission. It says that we will have sales of 1.8 billion, and we will return to Education 488 million. This is based on having 1% for advertising, and actually we budgeted .94%; we seldom budget the full 1%. It includes two new draw games: one in October of this year and one in March of next year. North Carolina has a very low number of draw games. We have five games; most states have eight or more. This will start to bring us more in line with other state lotteries. The last time that we introduced a new draw game was in January of 2010, so it's been quite a while, and that was the Mega Millions game. We have total confidence in meeting this number.

If you move to the left to the red column, this is what would happen if we only had ½ of a percent to spend on advertising. Looking at a study done by the University of Texas using their econometric model—and I will tell you that some of the study was pretty dense—every \$1 decrease in advertising leads to a twenty-dollar-and-fifty-cent decrease in sales, so this is the model that we used. It would reduce our sales by 186 million and reduce the return to education by 45 million, bringing it to 444 million, which really reverts us back to amount that we returned to education in Fiscal of 11.

The impact on our advertising [spin?] would be that we would, because we would be spending essentially half of what we spend today it would cut the agency fee – Trone Advertising out of High Point is our advertising agency – it would cut our production costs. We would not be able to produce as many ads. It would seriously cut the dollars that we have available to make that

media buy. We would be able to have no digital advertising on the internet and no print advertising. Our media buy, when we're buying actually air time – radio or TV, would go from 12.2 million to 4.9 million. For a state-wide, 12 months of the year campaign, that is a very small amount of money. It would seriously impact our ability to keep our production in front of our players, and keeping product in front of players is critical to any sales and marketing organization.

And then the final column, the 2% advertising, it shows what we could do if we had double the money. And this is the column that we provided to the House Appropriations Chairs, and this is the number that you have been seeing...that's the number you see in their budget. This would allow us to maintain a very strong consistent player base. It would bring the total return for Fiscal 15 from the lottery to \$594 million – almost \$600 million.

What this additional 1% would allow us to do: First, we could place a media buy to advertise Powerball and Mega Millions Jackpots. Right now we rely solely on our billboards and our jackpot signs; we don't make any media buys for those jackpots. It would allow us to have a monthly media buy for our instant product. That's that First Tuesday Campaign. We do that about eight months...We did that about eight months this year. It would allow us to do it all 12 months. It would allow us to be able to advertise our in-state draw games: Carolina Cash Five, Pick Three, Pick Four, which we don't advertise, for the most part, right now. It would allow us to advertise our core instant games – we have two core families that are always available – much more regularly than we do now. It would give us sufficient dollars to advertise those two new draw games that I mentioned, and that's really important. Again from this same University of Texas study, they noted that a lottery needs well-directed and well-informed advertising efforts on new games or the games may not realize their full potential. And if we're going to introduce two new games this year, we absolutely want to meet the potential of those two new games.

Other changes that we would make in our strategies in order to meet that \$106 million target is we would move that March draw game, March of 15 draw game that we're planning, to September of 14, giving us six more months of sales in the fiscal year. That would then actually open a slot where we could add another draw game in March of 15, giving us four months of sales that we've not built into any budget, and it would allow us to add a higher price point game to our instant product.

So all of this that I've mentioned in terms of what we could do if we had 2% would be a much more aggressive approach than the citizens have be accustomed to from the lottery, but we believe with this approach that we hit the 106 million increase in our return.

The final thing that we were asked to talk about was the effect of House Bill 156, the provisions that the House added into the budget that would add lottery advertising restrictions. I would like to start by saying that the lottery has operated very responsibly over the last eight years. We keep our players...We look at our players as our customers, and we take great pride in keeping them informed. We want our players to understand lottery games. We want them to know what the odds are for winning and what the prizes are. We share that information daily on multiple channels: advertising, marketing and communications. And we have a customer service hotline dedicated to our players that answer questions every day from players about how to play our games. So we've worked really hard on that. And I will tell you that the author of this language

wants to see the lottery fail and wants to put the lottery out of business, and that is why those restrictions were put into the House budget.

These restrictions would waste lottery dollars by making our advertising spins less efficient, and this would result in getting a smaller return for that investment in advertising. As a sales and marketing organization we need to use our advertising dollars absolutely to their best advantage, and that needs to be making efficient buys. And the other thing is that when our sales drop, it means that our retail commissions drop, so our retail partners would also see a drop in their income.

So what's the impact of these new restrictions that are in the House budget bill? The first is that there's language in the bill that says anytime that we advertise a game that is an annuity, we must also provide the cash value – and we do that every place it is feasible to do that. The two places that we don't are on our 60 billboards and our 3,000 jackpot signs that are at retail. This would require that all of that signage have both the annuity jackpot and the cash value. No other state does this. We would be the only state providing this kind of information on signage. It would require that the billboards have a second digit box. So if you'll call to mind the billboard as your driving down the highway, it would have to have a second digit box, and the jackpot signs that you see at retail would have to have a second line of numbers. It would require a satellite feed to send to the board that second number. That feed's not currently available; no one is sending that feed. That entire process would have to be established. There would be about an 18-month timeframe for replacing the billboards and jackpot signs, and we would be replacing boards and signs that still have a useful life – absolutely not a wise investment of money.

We also believe, and we have estimated this in the numbers, that we would lose Powerball and Mega Millions sales. On billboards you have a very short read, and what we really want the player, when they see that billboard, to know is what's the jackpot. That's what folks care about. So there's going to be a second number. It's going to be confusing. No other state's going to have this. One of the lessons of advertising is you've got to keep it simple, and all we're doing is making it more confusing. We absolutely believe that we would be pushing sales to other states because other states wouldn't have this dual message.

The third thing that these restrictions would do that would have, we think, a serious impact is that we would have a lost advertising opportunity by not being allowed to purchase top-tier programming during college athletic events. For the football season we have three of the top 25 media markets. For basketball season we have three of the top ten media markets in country. This is prime TV time, and we're able to purchase that time now. To try to get the same number of eyes, the number of viewers, to see an ad, we would have to purchase about three times the amount of time to make up for the loss of being able to advertise during college athletics. Again, spending more money to receive the same value - completely inefficient way to spend your money.

So if the lottery is to operate like a business, which we very much try to do, very focused on our bottom line, then these restrictions would seriously impact our ability to do so. So if you want to look at the dollar impact, you'll go to your chart to the bottom two rows, mainly in red, and...I lost my page...So, if you look at our current budget, the budget that my Commission has passed,

the budget under which we anticipate operating in Fiscal 15, it would reduce our return to education by 44 million, taking us to 444 million - back to Fiscal 11 return amounts. A half of a percent advertising, that return would be reduced by 43 million, taking the return to 401 million, which takes us back to what we were providing for education between fiscal year 8 and fiscal year 9 numbers – a serious turn back. Two percent advertising would reduce that return by 47 million by taking us to 448 million for that return. So it's still an increase over what we are projecting a steady [stay?], but obviously less than we could accomplish if we had 2% with no restrictions.

One of the reasons that we have provided this information in kind of a financial state form is that we thought it would be helpful for you to see exactly how lottery dollars are being spent. So this is essentially a capsule of our budget showing revenues in and expenses out, and that is what I wanted to bring to you. And I'm happy to answer any questions.

Chair Harrington: Thank you, Ms. Garland. Questions from the committee? Senator Brown.

Sen. Brown: Thank you, Ms. Chairman...Ms. Chairman, that's what I said. Ms. Garland, obviously then the budget that the House put together used additional, I think it was \$106 million of lottery proceeds. So what you're saying is with the restrictions they put also in their budget that that's just not a feasible number in your opinion?

Alice Garland: That is correct. We will not be able to hit \$106 million with those restrictions.

Chair Harrington: Follow up?

Sen. Brown: Follow up?...I know you having a projection here that the restrictions would cost about \$47 million. I feel that you feel certain about these numbers to a point, but it's still hard to be certain, I guess, because of the restrictions that are in the budget, as well. These are the best estimates I guess that you could come up with in a short period of time?

Alice Garland: Yes, and really similar to how we do budget projections: we're looking at sales figures from the past; we're extrapolating from those school years for an impact on sales in the other direction – and we're doing the same thing. So, it's our best projection, but we believe it's pretty close to accurate.

Sen. Brown: Okay, thanks.

Chair Harrington: Senator Apodaca?

Sen. Apodaca: Thank you, Madam Chairman. I'd like to ask my first question to Senator Brown, if I may?

Chair Harrington: Do you yield?

Sen. Brown: Sure.

Chair Harrington: He yields.

Sen. Apodaca: Senator Brown, I was just thinking and this will go with Senator Tucker, too. If you're going to have a big sale at your car business next month, would you go in and cut your advertising budget in half and expect to sell a substantial amount of cars more than you did this month?

Sen. Brown: Absolutely not. I do have a big sale, so I'd like you to buy a car, but

Sen. Apodaca: Well, I'll be happy to talk to you about it if you'll deal for one. So, anyway...

Sen. Brown: But absolutely not. And I think the restrictions, as well, on the advertising is important because, you know, where you place those buys and how you can place them is definitely important as far as returns go.

Chair Harrington: Follow up?

Sen. Apodaca: I think he said it all. Thank you.

Chair Harrington: Thank you. Senator Tillman.

Sen. Tillman: Thank you, Madam Chairman. Thank you, Ms. Garland. You know, either you...To send a budget over like this putting something as important as teacher raises on lottery receipts, and then cutting your arm off on how to raise this money, you either want to defeat the lottery and get rid of it or make it ineffective, or you're not serious about teacher raises. You cannot reduce your revenue from lotteries with these silly advertisement restrictions. We see how you can raise the money, and I think these figures are pretty good. The lottery's track record on predictions have been very good, and you've done an excellent job, Madam. Whether you're for the lottery or not, that's not the question. The question is now: let's make it work. So we need these silly restrictions off and we don't need to put teacher salary in the lottery money unless we are pretty darn sure that we're going to raise the 106 million, or whatever we happen to come up with. And you show a whole lot more than...You show more than that with your unrestricted 2%.

So I'm just saying if you're serious about teacher raises, you won't tie your hands on the way to raise the money.

Chair Harrington: Thank you for your comments, Senator Tillman. Senator Rucho.

Sen. Rucho: Thank you, Madam Chairman and Ms. Garland. I found it interesting of all the times that someone from the lottery were to come here, the first time they've ever admitted the fact that they're out competing with the disposable income of the working families in our State.

I'm going to come from this from a different perspective as far as saying using this as a sort of money for ongoing government expenses is really not a good business decision. But what's worse is, and if you look at your scenarios of between 2.75 and one eight billion dollars, that money that you're competing with the private sector pretty much hits a dead end and doesn't do the same thing. So in essence, you're actually hurting the economy by the more you expand this

by using disposable income for lottery rather than for purchasing Senator Brown's car, or Senator Apodaca's products that he's selling. So the last thing I would want to do is expand this because we're working so hard to make this North Carolina economy a lot stronger, and it would be an absolute disaster to base teacher salaries on something that is actually detrimental to this economy.

Chair Harrington: Thank you, Senator Rabon...excuse me, Senator Rucho. Would you like to respond, Ms. Garland?

Alice Garland: Yes, thank you. I would like to say that actually there are a number of ways that the lottery puts money back into the economy. First and foremost are the prizes that we pay. Those dollars are going back into the economy. And the big winners who come in, the first thing we say is, "What are you going to do with this money?" and they say buy cars, buy houses, send my kids to college, renovate my house, take a vacation – that's money going right back into the economy.

The second thing is that we pay retailer commission, and that's income going to our retailers. So that's money back into the economy. And the third is that we spend money with vendors in North Carolina. You know, we have a significant buy with our ad agency; we have a number of other contracts where we're spending money with contractors. So we are actually putting a pretty decent amount of money back into the economy.

Sen. Rucho: Follow up?

Chair Harrington: Senator Rucho.

Sen. Rucho: Yes, ma'am. Thank you. I do understand what you're describing, but the real question was how much of an economic impact would you get? And I would probably not ask everybody in this audience how many of them have been winners in the lottery to buy enough...to win enough to buy a car from Senator Brown. So I think that's a false premise, but thank you.

Chair Harrington: Thank you. Senator Apodaca?

Sen. Apodaca: I'm going to take issue with my dear friend from Charlotte. Well, it's the Charlotte thing. Senator Ford, if you'll move, we'd be fine, but, well...(laughter). Okay, Mecklenburg County. But anyway, I regress.

Look, we never bought lottery tickets until these big mega things, and my wife, if it gets over 200 million, she goes out and buys lottery tickets. Now we don't spend a massive amount, but I do feel like those are monies that, you know, we're able to manage And I don't think we hurt the budget, and I think it puts money into the economy. I disagree with that. I do think it ends up back in the economy in some fashion. Now it might not end up in the way we want it to, but it still comes back in. So I just disagree with Senator Rucho...

Sen. Rucho: Madam Chairman?

Sen. Apodaca: And I know that doesn't...

Chair Harrington: Thank you for your comments

Sen. Apodaca: ...happen often, but...

Sen. Rucho: Madam Chairman, can we...

Chair Harrington: Senator...Senator Rucho?

Sen. Rucho: Can we ask if Senator Apodaca actually won one time?

Sen. Apodaca: Do you want to fi...?

Chair Harrington: Senator Apodaca, do you yield?

Sen. Apodaca: I do. Mrs. Apodaca won \$20 one time.

(laughter)

Chair Harrington: Congratulations. Senator Tillman.

Sen. Tillman: Madam Chairman, I think we're talking about...We got the lottery. We're not talking about whether we ought to have it, Senator Rucho, or whether it's good for the economy or bad for the economy. Fools will play the lottery and now if we can attract more fools to play the lottery and they choose that, I'm not sticking a gun to their head. We're talking about will it produce enough revenue to put something like teacher raises...What I'm looking at in the lottery receipts...Whether they're dependable or not, though, Senator Rucho, I don't know, but I know their figures have been good ever since I've looking at them.

All I want to know is let's generate the money. If we're going to go this route, let's generate enough money to do what we're talking about doing, rather than having a hundred-million dollar hole in the budget, which we will be looking at under the scenario of reducing the amount and in restricting the advertising. That's what we're building; we're building a deficit if we do this crazy plan.

Chair Harrington: Thank you for your comments. Senator Brown.

Sen. Brown: Thank you, Madam Chairman. Ms. Garland, I know I've tried to look at the history of the lottery, and I think every year but one the projections of what they would generate has been more than, I think, we thought, except for that one particular year, and I think the economy dictates a lot of that, as well. Would you say...I think I would say and I'm just wondering you opinion on this. The way the system is set up now, we do the best we can to project revenues, and if it generates a little more, we've been able to use those in different ways in our education budget. To me that's the prudent way to run this instead of, I guess, pre-spending those dollars on what we think may happen because you never know what the economy could do, or if we go into

a recession three months from now I think your projections on these numbers would be a lot different, probably. And so, you know, again, if you spend those dollars on the front end instead of the back end, of which what we've been doing, I think that's the safe way to predict these. I know in business that's surely the way I'd do it because you never know what could happen in the economy. Would you say that's accurate? I mean, you know, if we go into a recession, these numbers aren't accurate anymore.

Chair Harrington: Ms. Garland?

Alice Garland: There are any number of factors that impact sales. We have typically conservatively estimated for our budget. I've said several times that we would much rather overproduce and give you more money than you budgeted than under-produce and have you scrambling to try to figure out how to make up for not getting lottery dollars. We don't want to put you in that situation and we don't want to be in that situation. And fortunately that's proven to work for us.

I will tell you that numbers that we've provided under the 2% scenario are not conservative numbers. They're aggressive numbers. I have an amazingly dedicated staff that likes challenges. We were the fastest lottery start up in the country when we began, and I think we've just had a nice record of strong, steady growth. We believe we can hit that target.

Chair Harrington: Senator Brown, follow-up? Senator Tucker.

Sen. Tucker: Thank you, Madam Chair. Ms. Garland, over here. First of all, I think gambling on teacher raises off a gambling entity is not a good, wise budget decision, but that's neither here nor there. Since the original intent of the lottery was set up, there have been changes in the allocation of those dollars that the General Assembly's made. I remember when I was a county commissioner, 40% of the lottery used to go to retired capital and capital debt for counties. Now it's at 25, so it's changed.

Can you clarify a number for me? Since the lottery started, roughly 37% of the proceeds went back to the State, and that number has consistently reduced down to around 26%. Can you tell me if that is correct and/or what the reason for that is coming from the [lottery]?

Chair Harrington: Ms. Garland?

Alice Garland: Thank you, yes. Yes, Senator Tucker, that is correct. The 2007 Legislature changed our statutes to remove the percentages as mandates and, instead, made them guidelines, and instead directed us to maximize sales in order to maximize revenues, and that's really what we're about. So that percentage doesn't tell the story. It's really the dollars, and that's what we focus on completely is how can we raise more dollars. States that have mandated return at 35% are very low-performing states. And then, in several of those low-performing states the mandate has been removed and their sales skyrocket. So there is a ton of hard, solid data in the lottery industry to show what happens if you mandate a percentage return that's high instead of focusing on the dollar return. And you really, really do want to focus on the dollar return because that's how you can fund programs that you [need] to fund.

Chair Harrington: Senator Tucker, follow-up?

Sen. Tucker: Just a follow-up. So you drop the percentage, but the dollars that are going to

education have gone up. Is that what you're telling me?

Chair Harrington: Ms. Garland?

Alice Garland: Correct. The dollars have gone up typically four to five percent every year.

Sen. Tucker: So you're saying...

Chair Harrington: Follow-up.

Sen. Tucker: Just one more follow-up, Madam Chair, and I'm done. So by reducing the percentage you've increased the dollars, but if you maintain the same percentage as original intent, we wouldn't be getting even more dollars from the lottery to go to education?

Chair Harrington: Ms. Garland?

Sen. Tucker: Help me with the math.

Alice Garland: You would be getting significantly less. I mean, in fact, there's a very recent audit of the Georgia lottery by the State Auditor that looked at this very question and spoke to dollars versus percentages, and there's...I've got data out of Texas, and I've got data out of California.

The product that we produce...We're a sales and marketing organization and the product we produce, the produce we sell is prizes. And...

Chair Harrington: Senator Tucker, follow-up?

Sen. Tucker: Okay. So just formal clarification, and my sixth-grade math teacher would be mad if I didn't ask this. So if we have...If you're contributing the old way 37% of 105 million and the new way you're contributing 26% of 105 million, how is that more money for education?

Chair Harrington: Ms. Garland?

Alice Garland: We would not produce the 105 if we were returning 35% to education. Players by our games, players buy our tickets because they want to win money. If they have a lesser chance of winning because we are reducing what we put into prizes, they will not buy our tickets. And so we won't...The sales figure will drop considerably, and so you're going to get 35% of a lower sales figure. So the question is you want 35% of a lower figure or do you want 26% of a significantly higher figure?

Chair Harrington: Senator Tucker?

Sen. Tucker: Okay, thank you. That's fine. I just want to share with you that I firmly believe that I've got a better chance of being struck by lightning than Ms. Apodaca winning the lottery.

Chair Harrington: Thank you. Senator Ford.

Sen. Ford: Thank you, Madam Chair. I'd like to get the opinion of Fiscal staff on the presentation from the folks from lottery.

Chair Harrington: We are...That is actually next up.

Sen. Ford: Alright, so are they going to give us their opinion based upon the presentation that we're hearing now?

Chair Harrington: Evan Rodewald, Fiscal?

Evan Rodewald: Thank you, Madam Chairman. Evan Rodewald, Fiscal Research. The finance team of Fiscal Research is working with State Budget to investigate the lottery revenues. They're going to be sending a consensus revenue forecast later this week.

Sen. Ford: Follow-up?

Chair Harrington: Follow-up.

Sen. Ford: So, thank you very much for that clarification. Folks, the jury's still out as it relates to a second opinion, even on the numbers that we're hearing here this morning, so I'm very, very interested in hearing from our own staff about what those look like.

And last comment, Madam Chair. I agree with the comments. It's very, very difficult, in my opinion, to gamble on gambling to pay teachers. To me it's fiscally irresponsible. And I don't know how you get the consistency out of it unless you, ma'am, can share with me with some certainty that, based upon your financial model, that you will be able to predict these kind of returns on a consistent basis.

Chair Harrington: Thank you, Senator Ford. Senator Robinson.

Sen. Robinson: I had my hand...Thank you, Madam Chair. I had my hand up so long that I really forgot I did it.

Chair Harrington: There are a lot of people in the queue.

Sen. Robinson: Senator Rucho was pulling my attention away talking about Senator Apodaca's wife playing the lottery.

Sen. Rucho: [inaudible]

Sen. Robinson: But the question – and I'm not Senator Ford, so I was kind of looking at what we're investing with the operating expenses as opposed to revenues which, you know, gives us that [net-in]. On the other end of it, we're investing more than, you know, in terms of the returns. It's not a real great return, and I see what you're saying which supports the fact that we ought not to be gambling with teacher salaries. That's my point.

But I saw an article in the paper in terms of who plays the lottery the most, and do you have statistics on that in terms of who, you know, what segment of the population, or what area...I know it's not Senator Apodaca, but can you tell us who plays the most?

Chair Harrington: Ms. Garland?

Alice Garland: I don't have statistics. What I would like to share is kind of empirical evidence, I guess. Every winner who wins 100,000 or more must come in to our headquarters to receive their winnings. And we interview every one of those folks, and that's anywhere from, you know, three to five people a week. They are a true cross-section of North Carolina. They are doctors, lawyers, accountants, bank executives, engineers, and they are blue-collar workers, they are housewives. I mean, it is a real cross-section. They are in all 100 counties. They cover the gamut and they are North Carolina.

Chair Harrington: Thank you, Ms. Garland. Senator Bryant?

Sen. Bryant: I was trying to get a handle on the restrictions. I presume they are, and maybe this is a question for you, Ms. Garland, or for staff. Are they all covered in pages, I guess, 10 and 11 or so of the special provisions, or are they scattered throughout and could somebody sort of highlight the key components of these restrictions, and then I was going to ask you something about the impact. I just want to know what we're all kind of all talking about. And is 156 just a sort of catch-name for the same items that are in the budget, or is this a separately passed bill? That's the follow-up question, Senator Harrington.

Chair Harrington: Thank you. I'd like to recognize Brian Matteson to give the details of your first question.

Brian Matteson: Thank you, Madam Chair. Over here, straight in front of you, Senator Bryant. Good morning. The items you're looking for in the House budget begin on page 9 in Section 5.2. You'll see below the area in which the lottery funds are appropriated in the House budget there are a series of additional provisions that would govern and make changes to how the lottery may advertise under the House budget. So, you know, Ms. Garland had reviewed those with you in some detail, but you'll find them all in block in that area. It's not identical, I believe, to the House bill that was referred to, but I believe the bulk of that House bill is reflected in the House budget with respect to advertising and changes there.

Chair Harrington: Thank you. Senator Bryant, did you have a follow-up with him, or Ms. Garland?

Sen. Bryant: Yes. I heard you discuss, talk about something about advertising and something. If you could just review with me – I hope it's not at length – one more time what are these restrictions and sort of the impact.

Chair Harrington: Ms. Garland?

Sen. Bryant: For example, I see something about the kind of games you can do, or something. I don't really understand what that really means.

Alice Garland: And I apologize. I don't have that language in front of me, but I think I pretty much have it printed in my head. The language on the games really just captures what we're doing today. We can provide instant games which are the tickets that you scratch off, and draw games which are...Draw games are ones where their numbers are drawn, and that's why we call it a draw game. So that doesn't restrict what we're doing today.

The three main concerns that we have in terms of those restrictions...The first is the language that speaks to if the win is an annuity jackpot that you have to also provide the cash value. We do that everywhere feasible. Where we don't do it is on the billboards and on the jackpot signs. That's the only two places we don't do it. It would be a tremendous expense and create great confusion to the players if we made that change.

The second is the not being allowed to purchase advertising during college athletics. And I'm sure everybody in here realizes that college athletics, I think, in North Carolina really are far more important than professional athletics in terms of TV. And to deny us the opportunity to purchase advertising during that prime TV time would absolutely have an impact and be very expensive to try to replace that with some other purchase.

And then the third is just we believe that the confusion created with having two sets of numbers on billboards and jackpot signs would actually push people from Powerball and Mega Millions and...

Chair Harrington: Thank you, Ms. Garland. Follow-up, Senator Bryant?

Sen. Bryant: Yes. So, in the case of the annuities or payments over a period of time, your concern is not that if the buyer would know the value they would not buy it – it's just the space it takes.

Chair Harrington: Ms. Garland?

Alice Garland: It's the confusion of having two numbers. They're used to a billboard that has one number. And if they're traveling from state to state, they see that some number in South Carolina and Virginia as they see in North Carolina, and all of the sudden there's a billboard with a second box and a second number, and what on earth does that mean, and what's that telling me, and has North Carolina changed the game somehow? I think I'll just go to South Carolina or Virginia.

Sen. Bryant: Follow-up?

Chair Harrington: Thank you. Senator Bryant, follow-up?

Sen. Bryant: Okay. And in terms of your odds, I'm looking at the provisions and you have to state the probability of winning the lowest prize and the largest prize, and how is that different from what you do now when you say what the odds are?

Chair Harrington: Ms. Garland?

Alice Garland: Our current statute requires that we put on everything that we do the overall estimated odds of winning in that game. And so that's what we do because that's what our legislation tells us to do. What this provision would ask us to do is to include the odds of winning the top prize and what's the dollar value of the lowest prize that you can win. After House Bill 156 was introduced, you know, we started looking at how we...what we could go ahead and do, and that was an easy one. We were glad to do that. Had we been asked, we would have done it voluntarily; we were just doing what our statute told us to do. But we already now have on all of our tickets and our point of sale that's in stores, on our how-to-plays the odds of winning that top prize. We have left the overall estimated odds because that's still in our statute.

Chair Harrington: Thank you, Ms. Garland. Follow-up?

Sen. Bryant: And this is to staff. In this section about advertising in sports it says, "in connection with any sport or sporting event." Are those different?

Chair Harrington: Brian Matteson?

Sen. Bryant: I was just curious...in terms of the drafting

Brian Matteson: Madam Chair, Senator Bryant, I'm not in a position to have an opinion on that. Looking across at my colleague, we'd have to talk to an attorney and get back to you on that. We'll do that.

Chair Harrington: Thank you. Thank you, Senator Bryant. Senator Apodaca? (laughter) Senator Apodaca.

Sen. Apodaca: Thank you, Madam Chairman. Ms. Garland, I was wondering about these Mega Million things. Hasn't that been a real boon to the lottery off large jackpots over the last couple years when Mrs. Apodaca really gets involved the lottery? What kind of money has that brought in?

Chair Harrington: Ms. Garland?

Alice Garland: Well first, I would like to say that Mrs. Apodaca is like a huge number of other North Carolinians that waits for the jackpot to be \$200 million because a measly \$40 million isn't enough.

(laughter)

Chair Harrington: Thank you.

Alice Garland: But yes. And quite frankly, Senator Brown, one of the reasons that we have surpluses is we don't project for the next year those large runs. You can't count on them. We can't predict them. You know, we can have a year where we have three or four of those large runs and have a great year. We can have a year where we have one large run.

But typically...I wish I had a sales chart to show you what happens when that jackpot gets really big. I mean, it's not unusual for us to...I actually can't tell you minute by minute what we do on a normal day. But literally, minute by minute when that jackpot is high, we are selling \$20,000 of tickets a minute – when that jackpot's high. And that's a...I mean, 38% of that...The draw games have a higher return than the instant tickets. Thirty-eight percent of that is going to education.

Chair Harrington: Thank you.

Alice Garland: Those games have been great for us.

Chair Harrington: Thank you, Ms. Garland.

Sen. Apodaca: Madam Chairman, may I...

Chair Harrington: Two more questions from committee. We're trying to get through...

Sen. Apodaca: I want to do a quick follow-up and then make a statement, please.

Chair Harrington: Follow-up.

Sen. Apodaca: Alright. Well, I don't want us to spend a whole lot of time worrying about House Bill 156 no matter where it is or where it was put, and that's just for [*inaudible*]. And so, I don't want Jamie going into labor and I don't want you having a heart attack.

And in finishing up, I think lightning hitting Senator Tucker is probably far greater than about anything I can think of odds-wise happening. It out to probably happen at almost any moment. So thank you.

Chair Harrington: Thank you for your comment. Senator Brock?

Sen. Brock: Thank you, Madam Chair. You know, we're looking at advertising, you're looking at when the jockpot's do get that high, you have your [earned] media where it's leading off a new story every night. So when you're looking at actually sales advertising is that the media's doing more of it for you than what you're putting in. So your numbers are...I think you're misinterpreting the numbers wrong.

But, you know, the question I have on this one, and regardless of what Senator Apodaca said about the bill, looking at our information that worked to make the decision on the lottery [when] we created you in the middle of the night...The information we got on House Bill 156 that it would be no impact. Do you talk to...And I know they're coming up next, but did you – the Lottery Commission – talk to our Research staff to give us this information that said it would be no net impact. You said the number...This is this year, but last year you said you didn't have the numbers; now you do. Can you walk me through the dialogue you had with them...

Chair Harrington: Ms. Garland?

Alice Garland: We were not consulted when that fiscal note was put together. In Fiscal 13 when I spoke in the House Judiciary Committee, I laid out what I thought the fiscal impact would be. And my legislative liaison and I met with Representative Stam and we told him what we thought the fiscal impact would be. So...

Sen. Brock: So...

Chair Harrington: Follow-up.

Sen. Brock: Follow-up?

Alice Garland: ...it was not for a lack of our expressing what we thought would happen.

Sen. Brock: Follow-up?

Chair Harrington: Follow-up.

Sen. Brock: What were your numbers?

Alice Garland: Similar to what you see now. I mean I...I don't have them with me, but they haven't changed very much.

Sen. Brock: Can you provide me...

Chair Harrington: Follow-up.

Sen. Brock: Can you provide me with that documentation that you gave to Representative Stam?

Alice Garland: We talked to him verbally. I did not hand him a document.

Chair Harrington: Thank you, Ms. Garland. We very much appreciate you sharing your time with the Committee and answer all the questions. Thank you. Next we have Brian Matteson from the Fiscal Research Division...

(55:36)