

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE**

BILL NUMBER: HB 838
SHORT TITLE: LOTTERY FOR SCHOOL BUILDINGS
SPONSOR(S): REP. FITCH

FISCAL IMPACT: **Expenditures:** **Increase (X)** **Decrease ()**
 Revenues: **Increase (X)** **Decrease ()**
 No Impact ()
 No Estimate Available (X) RE: Misdemeanors

[143C-155(a)]

FUND AFFECTED: **General Fund ()** **Highway Fund ()** **Local Govt. ()**
 Other Funds (X) **North Carolina State Lottery Fund**

BILL SUMMARY:

Subject to a state-wide referendum at the next primary, general, or special election, adds new GS Ch. 143C to provide for a state lottery. Creates a nine-member State Lottery Comm'n, five to be appointed by the Governor, two by the Speaker, and two by the President Pro Tem; powers and duties specified in bill. Governor is to appoint a director to manage operations. Comm'n shall initiate lottery games at earliest feasible time but within 180 days of approval of the referendum. Comm'n shall determine types of lottery games to be offered, but the games may not do the following:

- (1) be based on dog racing or horse racing themes;
- (2) be based on the outcome of any sporting event;
- (3) use tickets that do not have unique numbers;
- (4) use tickets that include the name or photograph of an elected official; or
- (5) use a computer terminal or electronic device that dispenses coins or currency.

Makes sale of tickets to a person under 18 a Class 1 misdemeanor. Specifies restrictions on persons who may be selected as retailers for lottery. Requires director to have independent audit of the lottery conducted biennially. At least 50% of the total annual revenues shall be returned to the public in the form of prizes. As near as practical, no more than 16% of the annual revenues shall be used for expenses.

Earmarks \$1 million of the net income for transfer to each local school administrative unit for Capital Outlay projects. The balance shall be transferred to each unit on the basis of average daily membership as a block grant for nonsalary uses to be determined by the local board of education. Provides that funds for Capital Outlay projects may be used for construction of buildings or retirement of bonds previously issued for construction of school buildings, instructional technology, technology training centers for teachers and administrators, and equipment necessary to provide safe schools. Also specifies that block grant monies not be used for personnel purposes.

If a lottery is approved by the voters, the costs to the State Board of Elections and county boards of election for conducting the referendum are considered expenses of the lottery and would be reimbursed by the Lottery Commission. If the lottery is defeated, the election boards may seek reimbursement from the General Assembly for their costs.

EFFECTIVE DATE: Upon ratification.

PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED:

FISCAL IMPACT

(@ 34% of total Lottery Revenues -distribution to Public Schools)

	<u>FY 95-96</u>	<u>FY 96-97</u>	<u>FY 97-98</u>	<u>FY 98-99</u>	<u>FY</u>
<u>99-00</u>					
	(\$ Millions)				
Projected Net Revenues \$286.6	\$68.0*	\$178.5	\$268.6	\$287.6	
Base Allocation for Capital Projects @ \$1 million LEA	68.0	118.0	118.0	118.0	118.0
Average Daily Member- ship Distribution	0.0	60.5	150.6	169.6	168.6

(*3/1/96 - 6/30/96)

FISCAL IMPACT

(@ 50% of Total Lottery revenues distributed back as prizes)

	<u>FY 95-96</u>	<u>FY 96-97</u>	<u>FY 97-98</u>	<u>FY 98-99</u>	<u>FY</u>
<u>99-00</u>					
	(\$Millions)				
Gross Proceeds \$843.0	\$200.0	\$525.0	\$790.0	\$846.0	
Available for Prizes \$421.5	\$100.0	\$262.5	\$395.0	\$423.0	

FISCAL IMPACT

(@ 16% distributed for lottery expenses)

	<u>FY 95-96</u>	<u>FY 96-97</u>	<u>FY 97-98</u>	<u>FY 98-99</u>	<u>FY</u>
<u>99-00</u>					

(\$ Millions)

Lottery Expenses	\$32.0	\$84.0	\$126.4	\$135.4
\$134.9				

ASSUMPTIONS AND METHODOLOGY: It is impossible to know under the bill when the lottery referendum will be held. For purposes of making fiscal estimates, it is assumed that the vote is held in November, 1995 and the lottery begins March 1, 1996.

After a detailed review of the widely-varying lottery sales experience in other states over a number of years, it appeared that the experience in Virginia since 1988 is most relevant. Thus, the North Carolina estimates are generally patterned after this trend.

For the disposition of gross revenues, it is assumed that 50% will be used for prizes(as set out in the proposed Article 7, 143C-173) and 16% for costs of the Lottery Commission and staff, including costs for administration, (as set out in the proposed Article 7, 143-174) leaving 34% in net revenues to be distributed as provided for in the proposed Article 7, 143C-175.

Those lottery costs indicated in Article 7, 143C-175 are assumed not to exceed 16% of total lottery revenues; further these costs are assumed to include any costs negotiated in connection with provisions for the lottery's "initial working capital..." as set out in Article 8, Section 10 of HB 838.(p.22).

This analysis assumes 119 local school units for the 1995-96 fiscal year and 118 units for the remaining years.

Class 1 Misdemeanor penalty. The Administrative Office of the Courts is unable to indicate reliably the numbers of individual incidents that may violate proposed new criminal penalty [143C-155(a)] and the resulting fiscal impact upon the court system due to increased caseload.

TECHNICAL CONSIDERATIONS: It is unclear under the bill whether the \$1 million earmarking to each local board of education for school capital is annual or one-time. After further conversations with the bill drafting attorney, Fiscal Research has determined that the intent is for the \$1 million to be an annual earmarking.

FISCAL RESEARCH DIVISION

733-4910

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