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HOUSE BILL NO. 784**AMENDMENT IN THE NATURE OF A SUBSTITUTE**

(Proposed by the House Committee on General Laws
on February 7, 2006)

(Patron Prior to Substitute—Delegate Albo)

A BILL to amend and reenact §§ 58.1-4006, 58.1-4007, 58.1-4009, 58.1-4014, 58.1-4018, and 58.1-4021 of the Code of Virginia and to amend the Code of Virginia by adding sections numbered 58.1-4014.1 and 58.1-4018.1, relating to the state lottery; penalty.

Be it enacted by the General Assembly of Virginia:

1. That §§ 58.1-4006, 58.1-4007, 58.1-4009, 58.1-4014, 58.1-4018, and 58.1-4021 of the Code of Virginia are amended and reenacted, and the Code of Virginia is amended by adding sections numbered 58.1-4014.1 and 58.1-4018.1, as follows:

§ 58.1-4006. Powers of the Director.

A. The Director shall supervise and administer the operation of the lottery in accordance with the provisions of this chapter and with the rules and regulations promulgated hereunder.

B. The Director shall also:

1. Employ such deputy directors, professional, technical and clerical assistants, and other employees as may be required to carry out the functions and duties of the Department.

2. Act as secretary and executive officer of the Board.

3. Require bond *or other surety satisfactory to the Director* from licensed agents as provided in subsection D of § 58.1-4009 and Department employees with access to Department funds or lottery funds, in such amount as provided in the rules and regulations of the Board. The Director may also require bond from other employees as he deems necessary.

4. Confer regularly, but not less than four times each year, with the Board on the operation and administration of the lottery; make available for inspection by the Board, upon request, all books, records, files, and other information and documents of the Department; and advise the Board and recommend such matters as he deems necessary and advisable to improve the operation and administration of the lottery.

5. Suspend, revoke or refuse to renew any license issued pursuant to this chapter or the rules and regulations adopted hereunder.

6. Enter into contracts for the operation of the lottery, or any part thereof, for the promotion of the lottery and into interstate lottery contracts with other states. A contract awarded or entered into by the Director shall not be assigned by the holder thereof except by specific approval of the Director.

7. Certify monthly to the State Comptroller and the Board a full and complete statement of lottery revenues, prize disbursements and other expenses for the preceding month.

8. Report monthly to the Governor, the Secretary of Finance and the Chairmen of the Senate Finance Committee, House Finance Committee and House Appropriations Committee the total lottery revenues, prize disbursements and other expenses for the preceding month, and make an annual report, which shall include a full and complete statement of lottery revenues, prize disbursements and other expenses, to the Governor and the General Assembly. Such annual report shall also include such recommendations for changes in this chapter as the Director and Board deem necessary or desirable.

9. Report immediately to the Governor and the General Assembly any matters which require immediate changes in the laws of this Commonwealth in order to prevent abuses and evasions of this chapter or the rules and regulations adopted hereunder or to rectify undesirable conditions in connection with the administration or operation of the lottery.

10. Notify prize winners and appropriate state and federal agencies of the payment of prizes in excess of \$600 in the manner required by the lottery rules and regulations.

11. Provide for the withholding of the applicable amount of state and federal income tax of persons claiming a prize for a winning ticket in excess of \$5,001.

C. The Director and the director of security or investigators appointed by the Director shall be vested with the powers of sheriff and sworn to enforce the statutes and regulations pertaining to the Department and to investigate violations of the statutes and regulations that the Director is required to enforce.

§ 58.1-4007. Powers of the Board.

A. The Board shall have the power to adopt regulations governing the establishment and operation of a lottery. The regulations governing the establishment and operation of the lottery shall be promulgated by the Board after consultation with the Director. Such regulations shall be in accordance with the Administrative Process Act (§ 2.2-4000 et seq.). The regulations shall provide for all matters necessary or desirable for the efficient, honest and economical operation and administration of the lottery and for the convenience of the purchasers of tickets or shares, and the holders of winning tickets or shares. The

60 regulations, which may be amended, repealed or supplemented as necessary, shall include, but not be
61 limited to, the following:

- 62 1. The type or types of lottery or game to be conducted in accordance with § 58.1-4001.
- 63 2. The price or prices of tickets or shares in the lottery; ~~however, all such sales shall be for cash.~~
- 64 3. The numbers and sizes of the prizes on the winning tickets or shares, including informing the
65 public of the approximate odds of winning and the proportion of lottery revenues (i) disbursed as prizes
66 and (ii) returned to the Commonwealth as net revenues.
- 67 4. The manner of selecting the winning tickets or shares.
- 68 5. The manner of payment of prizes to the holders of winning tickets or shares.
- 69 6. The frequency of the drawings or selections of winning tickets or shares without limitation.
- 70 7. Without limitation as to number, the type or types of locations at which tickets or shares may be
71 sold.
- 72 8. The method to be used in selling tickets or shares.
- 73 9. The advertisement of the lottery in accordance with the provisions of subsection E of § 58.1-4022.
- 74 10. The licensing of agents to sell tickets or shares who will best serve the public convenience and
75 promote the sale of tickets or shares. No person under the age of 18 shall be licensed as an agent. A
76 licensed agent may employ a person who is 16 years of age or older to sell or otherwise vend tickets at
77 the agent's place of business so long as the employee is supervised in the selling or vending of tickets
78 by the manager or supervisor in charge at the location where the tickets are being sold. Employment of
79 such person shall be in compliance with Chapter 5 (§ 40.1-78 et seq.) of Title 40.1.
- 80 11. The manner and amount of compensation, if any, to be paid licensed sales agents necessary to
81 provide for the adequate availability of tickets or shares to prospective buyers and for the convenience
82 of the public.
- 83 12. Apportionment of the total revenues accruing from the sale of tickets or shares and from all other
84 sources and establishment of the amount of the special reserve fund as provided in § 58.1-4022 of this
85 chapter.
- 86 13. Such other matters necessary or desirable for the efficient and economical operation and
87 administration of the lottery.

88 The Department shall not be subject to the provisions of Chapter 43 (§ 2.2-4300 et seq.) of Title 2.2;
89 however, the Board shall promulgate regulations, after consultation with the Director, relative to
90 departmental procurement which include standards of ethics for procurement consistent with the
91 provisions of Article 6 (§ 2.2-4367 et seq.) of Chapter 43 of Title 2.2 and which ensure that
92 departmental procurement will be based on competitive principles.

93 The Board shall have the power to advise and recommend, but shall have no power to veto or
94 modify administrative decisions of the Director. However, the Board shall have the power to accept,
95 modify or reject any revenue projections before such projections are forwarded to the Governor.

96 B. The Board shall carry on a continuous study and investigation of the lottery throughout the
97 Commonwealth to:

- 98 1. Ascertain any defects of this chapter or the regulations issued hereunder which cause abuses in the
99 administration and operation of the lottery and any evasions of such provisions.
- 100 2. Formulate, with the Director, recommendations for changes in this chapter and the regulations
101 promulgated hereunder to prevent such abuses and evasions.
- 102 3. Guard against the use of this chapter and the regulations promulgated hereunder as a subterfuge
103 for organized crime and illegal gambling.
- 104 4. Ensure that this law and the regulations of the Board are in such form and are so administered as
105 to serve the true purpose of this chapter.

106 C. The Board shall make a continuous study and investigation of (i) the operation and the
107 administration of similar laws which may be in effect in other states or countries, (ii) any literature on
108 the subject which may be published or available, (iii) any federal laws which may affect the operation
109 of the lottery, and (iv) the reaction of Virginia citizens to the potential features of the lottery with a
110 view to recommending or effecting changes that will serve the purpose of this chapter.

111 D. The Board shall hear and decide an appeal of any denial by the Director of the licensing or
112 revocation of a license of a lottery agent pursuant to subdivision 10 of subsection A of this section and
113 subdivision 5 of subsection B of § 58.1-4006 of this chapter.

114 E. The Board shall have the authority to initiate procedures for the planning, acquisition, and
115 construction of capital projects as set forth in Article 4 (§ 2.2-1129 et seq.) of Chapter 11 and Article 3
116 (§ 2.2-1819 et seq.) of Chapter 18 of Title 2.2.

117 § 58.1-4009. Licensing of lottery sales agents; penalty.

118 A. No license as an agent to sell lottery tickets or shares shall be issued to any person to engage in
119 business primarily as a lottery sales agent. Before issuing such license the Director shall consider such
120 factors as (i) the financial responsibility and security of the person and his business or activity; (ii) the
121 accessibility of his place of business or activity to the public; (iii) the sufficiency of existing licensees to

serve the public convenience; and (iv) the volume of expected sales.

B. For the purposes of this section, the term "person" means an individual, association, partnership, corporation, club, trust, estate, society, company, joint stock company, receiver, trustee, assignee, referee, or any other person acting in a fiduciary or representative capacity, whether appointed by a court or otherwise, and any combination of individuals. "Person" also means all departments, commissions, agencies and instrumentalities of the Commonwealth, including counties, cities, municipalities, agencies and instrumentalities thereof.

C. The chief security officer of the State Lottery Department shall conduct a background investigation, to include a Virginia Criminal History Records search, and fingerprints that shall be submitted to the Federal Bureau of Investigation if the Director deems a National Criminal Records search necessary, on applicants for licensure as lottery sales agents. The Director may refuse to issue a license to operate as an agent to sell lottery tickets or shares to any person who has been (i) convicted of a crime involving moral turpitude, (ii) convicted of bookmaking or other forms of illegal gambling, (iii) found guilty of any fraud or misrepresentation in any connection, ~~or~~ (iv) convicted of a felony, *or (v) engaged in conduct prejudicial to public confidence in the Lottery.* The Director may refuse to grant a license or may suspend, revoke or refuse to renew a license issued pursuant to this chapter to a partnership or corporation, if he determines that any general or limited partner, or officer or director of such partnership or corporation has been (i) convicted of a crime involving moral turpitude, (ii) convicted of bookmaking or other forms of illegal gambling, (iii) found guilty of any fraud or misrepresentation in any connection, ~~or~~ (iv) convicted of a felony, *or (v) engaged in conduct prejudicial to public confidence in the Lottery.* Whoever knowingly and willfully falsifies, conceals or misrepresents a material fact or knowingly and willfully makes a false, fictitious or fraudulent statement or representation in any application for licensure to the State Lottery Department for lottery sales agent, shall be guilty of a Class 1 misdemeanor.

D. Prior to issuance of a license, every lottery sales agent shall *either (i) be bonded by a surety company entitled to do business in this Commonwealth in such amount and penalty as may be prescribed by the regulations of the Department or (ii) provide such other surety as may be satisfactory to the Director,* payable to the State Lottery Department and conditioned upon the faithful performance of his duties.

E. Every licensed agent shall prominently display his license, or a copy thereof, as provided in the regulations of the Department.

§ 58.1-4014. Price of tickets or shares; who may sell; penalty.

~~A.~~ No person shall sell a ticket or share at any price or at any location other than that fixed by rules and regulations of the Department. No person other than a licensed lottery sales agent or his employee shall sell lottery tickets or shares, except that nothing in this section shall be construed to prevent any person from giving lottery tickets or shares to another person over the age of 18 years as a gift.

~~B.~~ Any person convicted of violating this section shall be guilty of a Class 1 misdemeanor.

~~C.~~ Any person who steals or otherwise unlawfully converts to his own or another's use a lottery ticket, prize, share, or portion thereof shall be guilty of larceny. For purposes of this subsection, the face amount of a lottery ticket, prize, share, or portion thereof shall be deemed to be its value.

§ 58.1-4014.1. Method of payment for purchase of tickets or shares.

Lottery sales agent licensed in accordance with this chapter shall accept only cash or debit card in payment for the purchase of lottery tickets or shares.

§ 58.1-4018. Prohibited actions; penalty.

Any person who wrongfully and fraudulently uses, disposes of, conceals or embezzles any public money or funds associated with the operation of the lottery shall be guilty of a Class 2 3 felony. Any person who wrongfully and fraudulently tampers with any equipment or machinery used in the operation of the lottery shall be guilty of a Class 2 3 felony. Any person who makes inaccurate entries regarding a financial accounting of the lottery in order to conceal the truth, defraud the Commonwealth and obtain money to which he is not entitled shall be guilty of a Class 2 3 felony.

§ 58.1-4018.1. Larceny of tickets; fraudulent notification of prizes; penalty.

A. Any person who steals or otherwise unlawfully converts to his own or another's use a lottery ticket, prize, share, or portion thereof shall be guilty of larceny. For purposes of this subsection, the value of a lottery ticket, prize, share, or portion thereof shall be deemed to be the greater of its face amount or its redemption value.

B. Any person who, with intent to defraud, steal, embezzle, or violate the provisions of § 18.2-186.3, designs, makes, prints, or otherwise produces, in whole or in part, a document or writing, whether in printed or electronic form, which falsely purports to be correspondence from or on behalf of the lottery shall be guilty of a Class 5 felony.

Jurisdiction shall lie and prosecution may proceed under this subsection in any county or city (i) in which the document was created; (ii) from which it was sent, regardless of the form of delivery; or (iii)

183 *in which it was received, regardless of the form of delivery.*

184 § 58.1-4021. Deposit of moneys received by agents; performance of functions, etc., in connection
185 with operation of lottery; compensation of agents.

186 A. The Director shall require all lottery sales agents to deposit to the credit of the State Lottery Fund
187 in banks, designated by the State Treasurer, all moneys received by such agents from the sale of lottery
188 tickets or shares, less any amount paid as prizes or retained as compensation to agents for the sale of
189 the tickets or shares, and to file with the Director, or his designated agents, reports of their receipts,
190 transactions and disbursements pertaining to the sale of lottery tickets in such form and containing such
191 information as he may require. Such deposits and reports shall be submitted at such times and within
192 such intervals as shall be prescribed by rule and regulation of the Department. The Director may arrange
193 for any person, including a bank, to perform such functions, activities or services in connection with the
194 operation of the lottery as he may deem advisable pursuant to this chapter and the rules and regulations
195 of the Department, and such functions, activities and services shall constitute lawful functions, activities
196 and services of the person.

197 B. The rules and regulations of the Department shall provide for a service charge to the licensed
198 agent if any payor bank dishonors a check or draft tendered for deposit to the credit of the State Lottery
199 Fund by a licensed agent or for an electronic transfer of funds to the State Lottery Fund from the
200 account of a licensed agent for money received from the sale of lottery tickets.

201 The regulations of the Department shall provide for a service charge and penalty to a licensed agent
202 if any payor bank dishonors a check or draft from the account of a licensed agent tendered for payment
203 of any prize by a licensed agent to any claimant. Any such charge or penalty so collected by the
204 Department shall be used first to reimburse the claimant for any charges or penalties incurred by him as
205 a result of the licensed agent's dishonored check tendered as payment of any prize and the remainder to
206 offset the Department's administrative costs.

207 C. A licensed agent shall be charged interest as provided in § 58.1-15 on the money that is not
208 timely paid to the State Lottery Fund in accordance with the rules and regulations of the Department
209 and shall in addition thereto pay penalties as provided by rules and regulations of the Department.

210 D. Should the Department refer the debt of any licensed agent to the Attorney General, the
211 Department of Taxation as provided in § 58.1-520 et seq., or any other central collection unit of the
212 Commonwealth, an additional service charge shall be imposed in the amount necessary to cover the
213 administrative costs of the Department and agencies to which such debt is referred.

214 *E. Notwithstanding the provisions of Chapter 5 (§ 8.01-257 et seq.) of Title 8.01, in any action for*
215 *the collection of a debt owed by any licensed agent to the lottery, venue shall lie in the city of*
216 *Richmond.*

217 *E.F.* All proceeds from the sale of lottery tickets or shares received by a person in the capacity of a
218 sales agent shall constitute a trust fund until deposited into the State Lottery Fund either directly or
219 through the Department's authorized collection representative. Proceeds shall include cash proceeds of
220 the sale of any lottery products, less any amount paid as prizes or retained as compensation to agents for
221 the sale of the tickets or shares. Sales agents shall be personally liable for all proceeds.

222 *F.G.* If the Director determines that the deposit or collection from any sales agent of any moneys or
223 proceeds under this section is or will be jeopardized or will otherwise be delayed, he may adjust either
224 the time or the interval or both for such deposits or collections of any sales agent; require that all such
225 moneys or proceeds shall be kept separate and apart from all other funds and assets and shall not be
226 commingled with any other funds or assets prior to their deposit or collection under this section; and
227 require such other security of any sales agent as he may deem advisable to ensure the timely deposit or
228 collection of moneys or proceeds to the credit of the State Lottery Fund.

229 Collection of moneys or proceeds "is or will be jeopardized or will otherwise be delayed" when (i) a
230 check, draft, or electronic funds transfer to the credit of the State Lottery Fund is dishonored as
231 described in subsection B; (ii) an independent auditor states that the lottery sales agent's financial
232 condition raises substantial doubt about its ability to continue as a going concern; or (iii) the lottery
233 sales agent (a) closes for business or fails to maintain normal business hours without reasonable
234 explanation, (b) has a credit record reflecting recent actions which cast doubt as to its creditworthiness,
235 (c) states it has or may have cash flow problems or may be unable to meet its financial obligations, (d)
236 states it may seek the protection of the federal bankruptcy or state insolvency law, (e) refuses to
237 purchase additional lottery tickets or returns tickets ordered without good cause, or (f) does any other act
238 tending to prejudice or to render wholly or partially ineffectual proceedings to collect moneys or
239 proceeds which are or will become due and payable to the State Lottery Fund.

240 **2. That the provisions of this act may result in a net increase in periods of imprisonment or**
241 **commitment. Pursuant to § 30-19.1:4, the estimated amount of the necessary appropriation cannot**
242 **be determined for periods of imprisonment in state adult correctional facilities and is \$0 for**
243 **periods of commitment to the custody of the Department of Juvenile Justice.**