

Department of Planning and Budget 2016 Fiscal Impact Statement

1. **Bill Number:** HB1089

House of Origin Introduced Substitute Engrossed
Second House In Committee Substitute Enrolled

2. **Patron:** Cline

3. **Committee:** Finance

4. **Title:** Virginia Lottery Fund; administrative expenses.

5. **Summary:** Reduces the cap on appropriations to the Virginia Lottery for the operation and administration of the lottery during any fiscal year, exclusive of agent compensation, from no more than 10 percent to no more than five percent of the total annual estimated gross revenues to be generated from lottery sales.

6. **Budget Amendment Necessary:** Yes – Item 484 (State Lottery Operations).

7. **Fiscal Impact Estimates:** Preliminary – see Item 8.

8. **Fiscal Implications:** Lottery's operating expenses include contractual vendor fees, advertising and promotional expenses, direct sales support, and other administrative expenses that are paid from the revenues collected from the sale of lottery products. Historically, Lottery has operated under the 10 percent maximum currently required in § 58.1-4022, Code of Virginia, and has spent less than six percent of sales on administrative expenses. Reducing administrative support by an additional one percent to reach a five percent cap equates to a \$20 million reduction (one percent of \$2 billion in annual sales). A reduction in operating and capital expenses of this magnitude would likely result in decreased support to retailers in terms of equipment for selling lottery products and informational materials to assist players in understanding lottery products available for purchase, which may result in a reduction in overall lottery sales.

Assuming the cap on appropriations does not impact sales, the Lottery proceeds available for transfer to the Lottery Proceeds Fund dedicated to public education would increase; however, it is indeterminate whether a reduction in the operations and administration appropriation would or would not impact lottery sales and, therefore, impact funds transferred to the Lottery Proceeds Fund.

Lottery is in the process of relocating from the Pocahontas Building to the Main Street Centre as part of the Capitol Complex Infrastructure and Security capital project. The deadline for Lottery to vacate the Pocahontas Building is January of 2017. As with the current law, the proposed legislation does not distinguish between capital and operating expenses; consequently, all operational and capital expenses are subject to the statutory spending cap. Therefore, reducing the agency's operating and administrative cap from 10 to

five percent would affect the agency's ability to pay for any moving or renovation costs associated with relocating from the Pocahontas Building.

9. Specific Agency or Political Subdivisions Affected: Virginia Lottery, Department of Education, and local school divisions.

10. Technical Amendment Necessary: No.

11. Other Comments: The Lottery's operating appropriation has never been established as a percentage of estimated sales; the appropriation level is established through the budget development process within the statutory limitation of no more than 10 percent of estimated revenues.