

## Department of Planning and Budget

### 2019 Fiscal Impact Statement

**1. Bill Number:** HB1638

<b>House of Origin</b>	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
<b>Second House</b>	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

**2. Patron:** Sickles

**3. Committee:** Rules

**4. Title:** Virginia Lottery; regulation of sports betting, creation of certain Funds, etc.

**5. Summary:** Directs the Virginia Lottery (the Lottery) to regulate sports betting. Before administering a sports betting operation, an entity is required to apply for a three-year permit and pay an application fee of \$250,000. Permit holders must apply for renewal of a permit every three years, which includes a renewal fee of \$200,000. The Director may issue up to five permits at one time. Under the provisions of the bill, betting on Virginia college sports and youth sports is prohibited, and betting on professional sports and other college sports is allowed. The bill prohibits betting by Lottery employees, participants in athletic events on which the bet is placed, and persons under age 21. The penalty for engaging in prohibited betting is a Class 1 misdemeanor. The bill directs the Lottery to establish a voluntary exclusion program, which would allow individuals to request that the Lottery exclude them from buying lottery tickets or participating in sports betting. The bill imposes a 15% tax on a permit holder's adjusted gross revenue, defined in the bill. The Lottery would retain 2.5% of the tax revenue to defray its costs of administering the program. The bill creates the Problem Gambling Treatment and Support Fund, administered by the Department of Behavioral Health and Developmental Services. The Fund would be used to provide counseling to compulsive gamblers, implement problem gambling treatment and prevention programs, and provide grants to organizations that assist problem gamblers. The Fund would be funded by 2.5% of the revenue generated from sports betting. The remaining 95% of tax revenue generated from sports betting accrues to the Major Research Project Subfund, a subfund of the Virginia Research Investment Fund created by the bill, to be used to fund grants or loans of at least \$10 million. The bill requires the MEI Project Approval Commission to review grants or loans from the Subfund. The bill authorizes the Lottery to sell tickets over the Internet. Under current law, it is prohibited from doing so.

**6. Budget Amendment Necessary:** Yes – Department of Corrections (Item 391 of House Bill 1700, 2019).

**7. Fiscal Impact Estimates:** Preliminary – see Item 8. Pursuant to § 30-19.1:4 of the Code of Virginia, the impact of the proposed legislation on state-responsible (prison) bed space cannot be determined as the legislation imposes misdemeanor and felony punishments for anyone convicted of violating the provisions of this bill. In such cases, Chapter 2 of the 2018

Acts of Assembly, Special Session I requires that a minimum impact of \$50,000 be assigned to the bill. The estimated costs for other state agencies impacted by the proposed legislation are explained in Item 8.

**Expenditure Impact:** Department of Corrections

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2019	\$0	0.00	-
2020	\$50,000	0.00	GF

- 8. Fiscal Implications:** The proposed legislation is expected to have a state fiscal impact for the Virginia Lottery, Department of Behavioral Health and Developmental Services (DBHDS), and Department of Corrections (DOC). The estimated costs for the impacted state agencies are explained below.

The Virginia Lottery is expected to incur additional costs for implementing the provisions of this bill; however, the costs cannot be determined at this time. The proposed legislation requires the chief security officer of the Virginia Lottery to conduct a background investigation of anyone applying for a sports betting permit. The background investigation is required to include a credit history check, a tax record check, and a criminal history records check. The Virginia Lottery may need one full-time equivalent position to conduct background investigations of sports betting permit applicants, as the agency does not have staff who would be able to conduct background investigations of sports betting permit applicants. The proposed legislation establishes a Sports Betting Operations Fund, which will consist of 2.5 percent of the tax revenue collected from the 15 percent tax imposed on a sports betting permit holder's adjusted gross revenue. The Virginia Lottery is authorized to use revenue deposited into the Sports Betting Operations Fund to support its operating and administrative costs for regulating sports betting.

The DBHDS is required to administer the Problem Gambling Treatment and Support Fund (Fund). The Fund will be used solely for providing counseling and other support services for compulsive and problem gamblers, developing and implementing problem gambling treatment and prevention programs, and providing grants to supporting organizations that provide assistance to compulsive gamblers. Currently, DBHDS does not provide any counseling or rehabilitative services for gambling addiction. According to DBHDS, based on the population density of Virginia, this legislation may need up to 25 full-time equivalent (FTE) positions through the Community Services Boards (CSB) and the DBHDS central office at a total cost of \$1.9 million per year in staffing. Additionally, using the costs of administering the Mental Health First Aid program as a blueprint, DBHDS projects the need for an additional \$600,000 per year for the costs of regional training programs and \$500,000 in additional support to the CSBs for locally administered programs. The revenue deposited in the Fund is expected to be used to defray DBHDS' administrative costs.

The table below provides a break out of DBHDS estimated fiscal impact.

<u>Expense</u>	<u>Cost</u>	<u>Number of FTEs</u>	<u>Total</u>
CSB Staff	\$75,000/ per position	24.00	\$1,875,000
Central Office Staff	\$75,000/ per position	1.00	\$75,000
Treatment/Training Programs	\$1,100,000	-	\$1,100,000
<b>Total</b>		<b>25.00</b>	<b>\$3,050,000</b>

The proposed legislation imposes a Class 1 misdemeanor for anyone convicted of violating the provisions of the proposed legislation. For a Class 1 misdemeanor, confinement in jail for not more than twelve months and a fine of not more than \$2,500, either or both is required. Because of the sentencing requirements, this proposal could result in an increase in the number of persons sentenced to jail or prison.

There is not enough information available to reliably estimate how many additional inmates in jail could result from this proposal. Ultimately, the presiding judge will decide if there is to be any time served in jail; however, any increase in jail population will increase costs to the state. The Commonwealth presently pays the localities \$4.00 a day for each misdemeanant or otherwise local responsible prisoner held in a jail. It also funds a large portion of the jails' operating costs, e.g. correctional officers. The state's share of these costs on a per prisoner, per day basis varies from locality to locality. However, according to the Compensation Board's most recent Jail Cost Report (November 2018), the estimated total state support for local jails averaged \$33.83 per inmate, per day in fiscal year 2017.

Due to the lack of data, the Virginia Criminal Sentencing Commission has concluded, pursuant to § 30-19.1:4 of the Code of Virginia, that the impact of the proposed legislation on state-responsible (prison) bed space cannot be determined. In such cases, Chapter 2 of the 2018 Acts of Assembly, Special Session I requires that a minimum impact of \$50,000 be assigned to the bill.

The Virginia Lottery is required to allocate a portion of the 15 percent tax imposed on a sports betting permit holder's adjusted gross revenue as follows: 2.5 percent to the Sports Betting Operations Fund; 2.5 percent to the Problem Gambling Treatment and Support Fund; and the remaining 95 percent to the Major Research Project Subfund.

The Virginia Lottery director is authorized to impose a monetary civil penalty, within at least 15 days' notice and a hearing, of no more than \$1,000 for each violation of Article 2. The bill also authorizes the Virginia Lottery's director to impose a penalty of no more than \$1,000 per day for each person determined to have made his premises available for placing wagers on sports betting using the Internet and a penalty of no more than \$10,000 per violation for a person determined to have advertised that his premises may be used for such purpose.

With passage of this bill, the sale of lottery products over the Internet would become legal. Assuming the federal and state legality of internet sales, there would be additional lottery

profits available to the Lottery Proceeds Fund in support of local public education. Revenue estimates will depend on the scope of offerings approved by the Lottery Board, and also presume the federal legality of in-state Internet gaming is confirmed.

- 9. Specific Agency or Political Subdivisions Affected:** Virginia Lottery, Department of Behavioral Health and Developmental Services, Department of Corrections, State Council of Higher Education for Virginia, Department of Accounts, Department of the Treasury, and localities.

- 10. Technical Amendment Necessary:** No.

- 11. Other Comments:** The proposed legislation is similar to Senate Bill 1238 (Petersen); however, Senate Bill 1238 establishes the Virginia Sports Betting Department as a separate entity from the Virginia Lottery.