

Department of Planning and Budget

2020 Fiscal Impact Statement

1. Bill Number: HB896-H4

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

2. Patron: Sickles

3. Committee: Conference

4. Title: Virginia Lottery; sports betting; Problem Gambling Treatment and Support Fund; penalties.

5. Summary: Directs the Virginia Lottery (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 bill authorizes the Director to issue no fewer than four and no more than 12 permits. A permit shall not count toward the minimum number of permits if it (i) is issued to a major league sports franchise or to the operator of a facility; (ii) is issued to an applicant that operates or intends to operate a casino gaming establishment; or (iii) is revoked, expires or otherwise becomes effective. A permit shall not count toward the maximum number of permits if it (i) is issued pursuant to a major league sports franchise or to the operator of a facility; or (ii) is revoked, expires, or otherwise becomes effective. The bill prohibits betting by Lottery employees, permit holders and certain related persons, 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 refrain from the following for a period of two years, five years, or lifetime: (i) playing any account-based lottery game authorized through this act; (ii) participating in sports betting; (iii) engaging in any form of casino gaming allowed under the laws of the Commonwealth; (iv) participating in charitable gaming; (v) participating in fantasy contests; or (vi) wagering on horse racing. Any state agency, at the request of the Lottery, shall assist in administering the voluntary exclusion program. The bill directs the Lottery to establish a consumer protection program and publish a consumer protection bill of rights. The bill imposes a 15 percent tax on a permit holder's adjusted gross revenue. The bill establishes the Problem Gambling Treatment and Support Fund, to be 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 supported by 2.5 percent of the tax revenue generated from sports betting. The remaining 97.5 percent of tax revenue generated from sports betting is to be deposited to the general fund.

6. Budget Amendment Necessary: Yes – see Item 8. The Virginia Lottery would require a new Item in HB/SB 30 to administer the sports betting regulatory program.

Conference budget amendment Item 3-2.03 #1c of HB 29 increases the Virginia Lottery's line of credit by \$16 million to support the agency's administrative costs related to casino gaming, sports betting, and the sale of lottery tickets through the Internet. Conference budget amendment Item 482 #1c of HB 29 provides authorization for the Virginia Lottery to use the increase of its line of credit to support the regulation and oversight of sports betting.

Conference budget amendment Item 488 #3c of HB 30 provides the Virginia Lottery with five full-time equivalent positions and \$2.3 million nongeneral fund appropriation in fiscal years 2021 and 2022 for regulation and oversight of sports betting activities. The amendment also includes language authorizing an interest-free treasury loan to fund start-up costs of sports betting program.

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

- 8. Fiscal Implications:** The Virginia Lottery would require additional full-time equivalent (FTE) employees to oversee and administer the sports betting regulatory program. The Virginia Lottery expects an additional five FTE employees would be needed beginning in fiscal year 2021. The Virginia Lottery would need to increase its maximum employment level and nongeneral fund appropriation beginning in fiscal year 2021 to support the sports betting program's ongoing personal and nonpersonal expenses. The Virginia Lottery's staffing and related regulatory oversight costs of the sports betting program would be funded through the sports betting application and renewal fees. Sports betting permit applicants are required to pay the Virginia Lottery an application fee of \$250,000 for a three-year permit and \$200,000 to renew its permit.

The revenue estimates below are based on mid-range estimates of proceeds from sports betting as included in the 2019 JLARC report for sports wagering in year five after a ramp-up period. Estimates are based on even growth annually until reaching maturity in year six. The bill imposes a 15 percent tax on a permit holder's adjusted gross revenue with 97.5 percent of the taxes collected allocated to the general fund and 2.5 percent of the taxes collected allocated to the Problem Gambling Treatment and Support Fund. The Problem Gambling Treatment and Support Fund is established to provide 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.

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2021	\$4.5 million \$0.1 million	General Fund Problem Gambling Treatment and Support Fund
2022	\$9.3 million \$0.2 million	General Fund Problem Gambling Treatment and Support Fund
2023	\$18.7 million \$0.5 million	General Fund Problem Gambling Treatment and Support Fund
2024	\$29.3 million \$0.7 million	General Fund Problem Gambling Treatment and Support Fund
2025	\$37.5 million \$1.0 million	General Fund Problem Gambling Treatment and Support Fund
2026	\$46.8 million \$1.2 million	General Fund Problem Gambling Treatment and Support Fund

The bill also imposes civil penalties for permit holders who violate § 58.1-4007. The legislation authorizes a monetary penalty of no more than \$1,000 for each violation and requires the collection of civil penalties to be deposited to the general fund.

The Department of Behavioral Health and Developmental Services (DBHDS) is required to administer the Problem Gambling Treatment and Support Fund. Currently, DBHDS does not provide counseling or rehabilitative services for gambling addiction. Previous estimates, based on the population density of Virginia, projected that at a minimum, a comprehensive program would require 24 local positions through the Community Services Boards and one central office position at the DBHDS central office at a 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 \$1.1 million for training and treatment services at the regional level.

<i>Expense</i>	<i>Cost</i>	<i>Number of FTEs</i>	<i>Total</i>
<i>CSB Staff</i>	\$75,000 per position	24.0	\$1,875,000
<i>Central Office Staff</i>	\$75,000 per position	1.0	\$75,000
<i>Treatment/Training Programs</i>	\$1,100,000	-	\$1,100,000
		25.0	\$3,050,000

The figures above are in line with average per capita expenditures on problem gambling programs nationwide. Based on a 2016 survey done by the National Council on Problem Gambling, the average per capital allocation for problem gambling services for states that

have such programs was \$0.37. The census of Virginia, according to the US Census Bureau, is estimated at approximately 8.5 million. The average allocation applied to the Virginia census equals \$3,145,000, which is in line with the DBHDS estimate. Since the revenues generated from this legislation would not be sufficient to cover these costs, DBHDS would either be required to absorb any additional costs from within its existing appropriations or additional general fund support would be required. If the legislation is not interpreted to require a comprehensive program, and requires only the level of service and related expenditures match the funds deposited, there is no fiscal impact.

The bill prohibits betting by Lottery employees and any permit holder, betting on youth or college sports, a permit holder from offering or taking any bets in violation of regulations promulgated by the Virginia Lottery Board, any person from knowingly accepting or redeeming a sports bet by, or knowingly offering to accept or redeem a sports bet on behalf of a person under the age of 21. The penalty for engaging in prohibited betting is a Class 1 misdemeanor. Anyone convicted of a Class 1 misdemeanor is subject to a sentence of up to 12 months in jail. There is not enough information available to reliably estimate the increase in jail population as a result of this proposal; however, any increase in jail population will increase costs to the state. The Commonwealth currently 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. According to the Compensation Board's most recent Jail Cost Report (November 2019), the estimated total state support for local jails averaged \$34.07 per inmate, per day in fiscal year 2018.

- 9. Specific Agency or Political Subdivisions Affected:** Virginia Lottery, Department of Education, Department of Behavioral Health and Developmental Services, Department of Accounts, all state agencies, and localities.

10. Technical Amendment Necessary: No.

11. Other Comments: This bill is identical to SB 384-S5 (McPike).