

## Department of Planning and Budget 2020 Fiscal Impact Statement

**1. Bill Number:** HB896-S1

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

**2. Patron:** Sickles

**3. Committee:** Finance and Appropriations

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

**5. Summary:** The Senate substitute 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 no fewer than six and no more than 10 permits to operate sports betting platforms to qualified applicants. The Director shall issue a permit to operate a sports betting facility only if the applicant is a major league sports franchise; the applicant will conduct sports betting operations at a sports betting facility on which construction began on or after July 1, 2020; and the applicant is otherwise qualified under the provisions of this act. The bill prohibits betting by Lottery employees, permit holders and certain related persons, 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 shares and from participating in sports betting. The bill imposes a 15 percent tax on a permit holder's adjusted gross revenue, as defined in the bill. The bill creates the Problem Gambling Treatment and Support Fund, administered by the Department of Behavioral Health and Developmental Services. The Problem Gambling Treatment and Support 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 Problem Gambling Treatment and Support Fund would be funded by 2.5 percent of the tax revenue generated from sports betting. The bill also establishes the Sports Betting Operations Fund to support the Lottery's administration and regulation of sports betting activities. The bill allocates 2.5 percent of the tax revenue collected from sports betting deposited to the Sports Betting Operations Fund. The remaining 95 percent of tax revenue generated from sports betting shall be transferred to the Revenue Reserve 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.

House budget amendment Item 3-2.03 #1h 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. House budget amendment Item 482 #1h 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 activities.

House budget amendment Item 488 #3h of HB 30 provides \$2.3 million nongeneral fund appropriation and five full-time equivalent (FTEs) positions in fiscal years 2021 and 2022 to support the regulation and oversight of sports betting activities. The amendment also authorizes an interest-free treasury loan for start-up costs of the Virginia Lottery's sports betting regulatory program.

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

- 8. Fiscal Implications:** The Virginia Lottery would require additional employees to oversee and administer the sports betting regulatory program. The Virginia Lottery expects an additional five 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 fund 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 operation permit and renewal fees.

The bill imposes a 15 percent tax on a permit holder's adjusted gross revenue with 95 percent of the taxes collected allocated to the Revenue Reserve Fund; 2.5 percent of the taxes collected allocated to the Problem Gambling Treatment and Support Fund; and 2.5 percent of the taxes collected allocated to the Sports Betting Operations Fund to support the Virginia Lottery's sports betting regulatory program.

The revenue estimates below are based on the mid-range estimates of proceeds from sports betting as included in the 2019 Joint Legislative Audit and Review Commission (JLARC) report, "Gaming in the Commonwealth", for sports wagering in year five after a ramp-up period and are based on even growth annually until reaching maturity in year six. The revenue estimates for the Sports Betting Operations Fund in fiscal year 2021 assume six sports betting license applications at \$250,000 each. The revenue estimates for the Sports Betting Operations Fund beginning in fiscal year 2022 include the 2.5 percent tax on a sports betting permit holder's adjusted gross revenue. The revenue estimates in fiscal year 2024 for the Sports Betting Operations Fund also include six sports betting license renewals at \$200,000 each.

| <i><b>Fiscal Year</b></i> | <i><b>Dollars</b></i>                           | <i><b>Fund</b></i>   |
|---------------------------|---|--|
| 2021                      | \$1.5 million<br>\$3.0 million<br>\$0.1 million | Sports Betting Operations Fund<br>Revenue Reserve Fund<br>Problem Gambling Treatment and<br>Support Fund |
| 2022                      | \$0.2 million<br>\$9.1 million<br>\$0.2 million | Sports Betting Operations Fund<br>Revenue Reserve Fund<br>Problem Gambling Treatment and<br>Support Fund |

| <i><b>Fiscal Year</b></i> | <i><b>Dollars</b></i>                            | <i><b>Fund</b></i>  |
|---------------------------|--|---|
| 2023                      | \$0.5 million<br>\$18.2 million<br>\$0.5 million | Sports Betting Operations Fund<br>Revenue Reserve Fund<br>Problem Gambling Treatment and Support Fund |
| 2024                      | \$1.9 million<br>\$27.4 million<br>\$0.7 million | Sports Betting Operations Fund<br>Revenue Reserve Fund<br>Problem Gambling Treatment and Support Fund |
| 2025                      | \$1.0 million<br>\$36.5 million<br>\$1.0 million | Sports Betting Operations Fund<br>Revenue Reserve Fund<br>Problem Gambling Treatment and Support Fund |
| 2026                      | \$1.2 million<br>\$45.6 million<br>\$1.2 million | Sports Betting Operations Fund<br>Revenue Reserve Fund<br>Problem Gambling Treatment and Support Fund |

The bill also imposes civil penalties for permit holders who violate § 58.1-4030. 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. 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. 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><b>Expense</b></i>              | <i><b>Cost</b></i>    | <i><b>Number of FTEs</b></i> | <i><b>Total</b></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         |
|                                    |                       | <b>25.0</b>                  | <b>\$3,050,000</b>  |

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 of the funds deposited, there is no fiscal impact.

The bill prohibits betting by Lottery employees, permit holders and certain related persons, participants in athletic events on which the bet is placed, and persons under age 21. 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; however, 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, and localities.

**10. Technical Amendment Necessary:** No.

**11. Other Comments:** This bill is similar to SB 384-H1 (McPike).