

## Department of Planning and Budget 2012 Fiscal Impact Statement

**1. Bill Number:** HB1109

|                        |  |                                     |                                    |
|------------------------|--|-------------------------------------|------------------------------------|
| <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:** Greason

**3. Committee:** General Laws

**4. Title:** Problem Gambling Treatment Fund established.

**5. Summary:** Establishes the Problem Gambling Treatment Fund for the prevention and treatment of gambling addiction and other problems related to gambling, and for the administration of such programs. The Fund shall receive four-tenths of one percent (0.004) from the State Lottery Fund, the State Racing Operations Fund (horse racing), and the revenue received by the Virginia Department of Agriculture and Consumer Services (VDACS) from charitable gaming permit and registration application fees. The Department of Behavioral Health and Developmental Services (DBHDS) will administer the Problem Gambling Treatment Fund. By its terms, the bill becomes effective on January 1, 2013.

**6. Budget Amendment Necessary:** Yes. Items 100 (language directing the deposit of charitable gaming permit revenue to the general fund); 128; and, 477. Front Page – General Fund Resources. The Department of Behavioral Health and Developmental Services.

**7. Fiscal Impact Estimates:** Preliminary. See item 8, below.

**8. Fiscal Implications:** The proposed legislation directs DBHDS to develop a plan for the coordination and administration of statewide prevention and treatment of gambling addiction and other problems related to gambling, and the delivery of program services, by July 1, 2013. The proposal also establishes the Problem Gambling Treatment Fund, which would consist of four-tenths of one percent (0.004) of: the State Lottery Fund, the State Racing Operations Fund, and the moneys received by VDACS from charitable gaming permits and registrations. This new fund would support the program DBHDS is directed to develop for the prevention and treatment of gambling addiction and other related problems.

Section 58.1-4022, Code of Virginia, establishes the State Lottery Fund, which shall consist of all moneys received from the sale of lottery tickets, less payments for prizes and retailer compensation, and interest earnings. This fund supports the total costs for the operation and administration of the Lottery, and is limited to 10 percent of the total annual estimated gross revenues. On or before January 1 of each year, the State Comptroller transfers the first installment of funding from the State Lottery Fund to the Lottery Proceeds Fund; thereafter and for the remainder of the fiscal year, transfers occur monthly. The bill provides for the

transfer of four-tenths of one percent of the State Lottery Fund to the Problem Gambling Treatment Fund. The bill requires the Lottery to reduce its expenses to offset any amount credited to the Problem Gambling Treatment Fund from the State Lottery Fund.

The methodology for calculation of the payments to the Problem Gambling Treatment Fund from the Lottery is unclear. In FY 2013, the Lottery estimates sales of approximately \$1.56 billion, prize expenses of \$943 million, retailer compensation of approximately \$89 million, operating expenses of \$83 million, \$1.3 million in other income, and \$450 million (gross sales less prize and operating expenses, and retailer compensation) available for transfer to the Lottery Proceeds Fund for support of public education in Virginia. Similarly, in FY 2014, the Lottery estimates sales of approximately \$1.6 billion, prize expenses of \$968 million, retailer compensation of approximately \$91 million, operating expenses of \$84 million, \$1.5 million in other income, and \$455 million for transfer to the Lottery Proceeds Fund. If it is the intent that the base for the calculation of the payments to the Problem Gambling Treatment Fund is the estimated sales, less the prize expenses, less the retailer compensation, in FY 2013, approximately \$1.06 million (half-year) would be available for payment from the State Lottery Fund to the Problem Gambling Treatment Fund. Approximately \$2.15 million (full-year) would be available for payment to the fund in FY 2014.

A corresponding reduction to the Lottery's operations would be required. According to the Lottery, depending on the amount required, reducing the dollars available for operations could reduce total sales and profits. The Lottery maintains that the estimate of funding available for transfer to the Lottery Proceeds Fund and available for K-12 public education included in the introduced budget bill was developed based on certain levels of advertising support, requisite operational expenses, and efficiencies. Currently, all efficiencies achieved by the Lottery directly benefit the Lottery Proceeds Fund and K-12 public education. Diverting funds from operations to the Problem Gambling Treatment Fund will mean fewer dollars available to support operations and could therefore lower profits. Operating dollars are necessary for core contractual obligations, advertising support, purchase of sales equipment to support the expansion of retailer sales outlets, and other operating costs.

Based on anticipated revenue in the 2012-2014 biennium, the Virginia Racing Commission's (VRC) State Racing Operations Fund appropriation for FY 2013 and FY 2014 is \$1.9 million. Four-tenths of one percent of this equals \$7,671. Under the provisions of this bill, approximately \$3,835 (half-year) would be available for payment to the Problem Gambling Treatment Fund in FY 2013, and approximately \$7,671 (full-year) would be available for payment to the fund in FY 2014. It is anticipated that all of the revenue VRC collects during the 2012-2014 biennium will be expensed on programs or transferred to the general fund, annually. Revenue assumptions in HB30/SB30, as introduced, include an annual transfer of \$734,356 in FY 2013 and FY 2014 from the State Racing Operations Fund to the general fund. In order to execute the annual payment to the Problem Gambling Treatment Fund, as provided for in this bill, either the amount of the transfer to the general fund will need to be reduced by the amount of the payment to the Problem Gambling Treatment Fund, or VRC may need to reduce its expenditures by a corresponding amount.

VDACS deposits the revenue generated from any and all fees paid by an organization conducting charitable gaming operations under permit issued by the department to the general fund. This bill would require the payment of such fees to the Problem Gambling Treatment Fund, rather than the general fund. In FY 2011, the general fund deposit was \$2.7 million; the estimated annual amount for FY 2012, FY 2013, and FY 2014 is \$3.3 million. Using these estimates, and the formula in the bill, general fund revenues would decrease by \$6,532 (half-year) in FY 2013 and \$13,064 (full-year) in FY 2014, as these amounts are deposited to the Problem Gambling Treatment Fund.

The cost to DBHDS of developing a plan, and implementing a prevention and treatment program, to address gambling addiction and related problems is indeterminate, as information is not currently available on the extent of the issue. Whether this funding stream is sufficient for DBHDS is also unknown. An estimate of funds needed for services would be part of the plan development and cannot be determined until the plan is developed. DBHDS anticipates that a fully-developed plan would be phased-in beginning in January, 2014.

- 9. Specific Agency or Political Subdivisions Affected:** Department of Behavioral Health and Developmental Services, Department of Agricultural and Consumer Services, State Lottery Department, and the Virginia Racing Commission.
- 10. Technical Amendment Necessary:** Yes, clarification regarding the calculation of the payments to the Problem Gambling Treatment Fund from the Lottery (whether the base for the payments is gross sales, net profits, or operating expenses). Also, clarification regarding the timing for payments to the newly created fund is needed; the bill currently states “annually”.
- 11. Other Comments:** The Virginia Constitution dedicates 100 percent of Lottery proceeds to public education in Virginia. A 4/5th vote is required to override this provision to allow Lottery funds to be used for other purposes. It is not clear if this bill’s treatment of the transfer of these funds as an operating expense to the Lottery addressed that requirement. The bill directs the Lottery to treat payments to the Problem Gambling Treatment Fund as an operating expense to hopefully address the 4/5 vote requirement.

**Date:** 1/23/12

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