

Department of Planning and Budget 2015 Fiscal Impact Statement

1. Bill Number: SB705

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

2. Patron: Favola

3. Committee: General Laws and Technology

4. Title: Virginia Lottery; sale of lottery tickets over Internet.

5. Summary: Repeals the prohibition against the sale of lottery tickets over the Internet.

6. Budget Amendment Necessary: Yes.

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

Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2015	\$0	-
2016	\$2,500,000	Lottery Proceeds Fund
2017	\$5,000,000	Lottery Proceeds Fund
2018	\$5,000,000	Lottery Proceeds Fund
2019	\$10,000,000	Lottery Proceeds Fund
2020	\$10,000,000	Lottery Proceeds Fund
2021	\$10,000,000	Lottery Proceeds Fund

8. Fiscal Implications: In December 2011, the Justice Department ruling on the Wire Wager Act of 1961 cleared the way for state lotteries to conduct wagering within their state borders, if authorized by their respective constitutions and state laws. Currently, the Virginia statute only authorizes the sale of lottery subscriptions over the Internet. By removing the Virginia statute that restricts direct lottery sales to consumers and would allow same-day sales over the Internet, the Virginia Lottery could extend a number of offerings to consumers in Virginia. Those include the sale of products currently through traditional retailers, the sale of products solely through the Internet, or some combination of both.

The Virginia Lottery views the potential sale of tickets over the Internet to be an additional distribution channel. Many U.S. lotteries are looking toward the Internet as an additional distribution channel for lottery products. Nine states offer ticket sales via the Internet; currently four offer same-day sales (Illinois, Georgia, Michigan and Minnesota). Kentucky will begin Internet sales in late 2015. Virginia has sold subscriptions to certain jackpot-style games over the Internet since 2005.

The experience of U.S. lotteries, as well as European and Canadian lotteries, indicate that a ramping-up period should be expected. The availability of products over the Internet does

not replace sales of traditional products at traditional retail outlets, and also does not create equal sales over the Internet. The industry experience indicates that a successful Internet lottery will provide the ability for consumers to participate in traditional lottery products in a manner that is convenient to the Internet consumer, as well as products that are not conducive to sale in a traditional retailer environment. This combination is critical to ensure that Internet lottery products are successful, both for the beneficiary of Internet lottery profits and to meet the needs and desires of the Internet lottery consumers. The revenue estimates would be refined if the statutory change is passed, as specific plans for deployment are defined in conjunction with key stakeholders including the retailer community, the administrative law process, and contractual partnerships with vendor and banking providers.

According to the Virginia Lottery, states that have begun selling lottery products online have not experienced a decline in their traditional retail sales levels.

This legislation is also expected to create additional costs for the Virginia Lottery. Offering lottery products directly to consumers through the Internet will require additional contractual arrangements for technology and associated services. These costs would be covered from the revenues generated through Internet gaming sales. In addition, over 5,000 retail partners across the state will face concerns of additional competition from the consumer's ability to purchase products directly from the Virginia Lottery. However, the Virginia Lottery could consider a model that cross-promotes Internet sales with traditional brick and mortar store sales, possibly even allowing retailers to sell both across-the-counter and over the Internet to earn commissions. Retailers rely on the lottery to draw consumers into their retail locations, earn commissions on lottery sales and also earn profits on other sales while the lottery consumer is in the retail location.

- 9. Specific Agency or Political Subdivisions Affected:** Virginia Lottery and Department of Education. The Department of Education distributes lottery profits to K-12 beneficiaries. Depending on the beneficiary of Internet gaming, this legislative change could positively or negatively influence the amount of lottery profits available for distribution to localities.

10. Technical Amendment Necessary: No.

11. Other Comments: No.