

Department of Planning and Budget 2016 Fiscal Impact Statement

1. **Bill Number:** HB1089-E

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

2. **Patron:** Cline

3. **Committee:** Finance

4. **Title:** Virginia Lottery Fund; administrative expenses.

5. **Summary:** Reduces the cap on appropriations to the Virginia Lottery for the operation and administration of the lottery during any fiscal year, exclusive of agent compensation, from no more than 10 percent to no more than eight percent of the total annual estimated gross revenues to be generated from lottery sales. The provisions of this act shall become effective July 1, 2017.

6. **Budget Amendment Necessary:** No.

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

8. **Fiscal Implications:** Lottery's operating expenses include contractual vendor fees, advertising and promotional expenses, direct sales support, and other administrative expenses that are paid from the revenues collected from the sale of lottery products. Historically, Lottery has operated under the 10 percent maximum currently required in § 58.1-4022, Code of Virginia and currently spends less than six percent of sales on administrative expenses.

A reduction in operating and capital expenses may limit the Lottery's ability to make cash payments for investments in Lottery infrastructure (such as retailer sales equipment, computer infrastructure, etc.) that are expensed over the useful life of the investment. Alternatives, such as financing purchases or restructuring contracts, would be more expensive because they would include the costs of financing and would impact the net profits available for the Lottery Proceeds Fund. This legislation is not expected to impact the transfer to the Lottery Proceeds Fund.

9. **Specific Agency or Political Subdivisions Affected:** Virginia Lottery, Department of Education, and local school divisions.

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

11. **Other Comments:** The Lottery's operating appropriation has never been established as a percentage of estimated sales; the appropriation level is established through the budget development process within the statutory limitation of no more than 10 percent of estimated revenues.

The Lottery is in the process of relocating from the Pocahontas Building to the Main Street Centre as part of the Capitol Complex Infrastructure and Security capital project. The deadline for Lottery to vacate the Pocahontas Building is January of 2017. As with the current law, the proposed legislation does not distinguish between capital and operating expenses; consequently, all operational and capital expenses are subject to the statutory spending cap. Because the amended bill has an effective date of July 1, 2017, the legislation is not expected to affect the agency's ability to pay for any moving or renovation costs associated with relocating from the Pocahontas Building.