

Department of Planning and Budget

2018 Fiscal Impact Statement

1. Bill Number: SB348

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

2. Patron: Locke**3. Committee:** General Laws and Technology**4. Title:** Virginia Lottery; digital vendors

5. Summary: Authorizes the Virginia Lottery Department (the Department) to establish regulations and procedures providing for the sale of drawing game tickets over the Internet by digital vendors. The bill defines drawing game ticket and digital vendor and restricts digital vendors from charging fees or other charges in addition to the price of a drawing game ticket.

The bill provides that no digital vendor may sell a drawing game ticket without first registering with the Department. The bill establishes criteria for applying for registration and for granting or denying registrations, including requiring applicants to show that they have implemented internal controls that ensure that individuals under the age of 18 are unable to buy a drawing game ticket. The bill establishes additional registration requirements similar to those required for existing lottery retailers. Registrations a digital vendor is valid for one year and is renewable.

The bill establishes civil penalties for the violation of regulations governing digital vendors and requires digital vendors either to be bonded or to provide other surety. Digital vendors are required to contract with a testing laboratory for an annual audit of the effectiveness of their internal controls.

6. Budget Amendment Necessary: Yes – Item 482 of SB 30.**7. Fiscal Impact Estimates:** Preliminary – see Item 8.**a. Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2018	\$0	0.00	-
2019	\$258,589	2.0	NGF
2020	\$262,789	2.0	NGF
2021	\$262,789	2.0	NGF
2022	\$262,789	2.0	NGF
2023	\$262,789	2.0	NGF
2024	\$262,789	2.0	NGF

b. Revenue Impact: Preliminary - see Item 8.

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2018	-	-
2019	\$2,000,000	Lottery Proceeds Fund
2020	\$2,000,000	Lottery Proceeds Fund
2021	\$2,000,000	Lottery Proceeds Fund
2022	\$2,000,000	Lottery Proceeds Fund
2023	\$2,000,000	Lottery Proceeds Fund
2024	\$2,000,000	Lottery Proceeds Fund

- 8. Fiscal Implications:** According to the Virginia Lottery (Lottery), the cost of the proposed legislation includes hiring one full-time information technology (IT)/systems security IT auditor to review the security of digital vendors, ensure compliance with national game rules, review audits, monitor any necessary mitigation or improvement plans; and one full-time legal analyst to establish and maintain regulations, research legal issues, facilitate winner/claim issues, increased Freedom of Information Act activity, mediate issue resolution with digital vendors and Lottery officials. The base salary for the IT position is \$87,235, including benefits; the total annual cost of the position is \$130,679 in fiscal year 2019 and \$132,779 in fiscal year 2020. The base salary for the legal analyst position is \$85,007, including benefits; the total annual cost of the position is \$127,910 in fiscal year 2019 and \$130,010 in fiscal year 2020.

The regulatory costs would be passed on to the regulated community in the form of application and renewal fees, but the initial costs to establish the program would not be fully captured by the applicants. In addition to the application fees, digital vendors would be responsible for surety bonding, staffing, audit, banking fees, and advertising and marketing costs, and other costs of business.

Violation of §§ 58.1-4007.4, 58.1-4014, or 58.1-4015, Code of Virginia, would result in a charge of 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 how many additional inmates in jail could result from this proposal. Ultimately, the presiding judge will decide if there is to be any time served in jail; however, any increase in jail population will increase costs to the state. The Commonwealth presently 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 2017). The estimated total state support for local jails averaged \$34.58 per inmate, per day in fiscal year 2016.

The revenue and potential profits from these digital vendor offerings are preliminary, as the number of digital vendors eligible to sell lottery tickets through the Internet is unknown. According to Lottery, the agency offers two national jackpot-style games for sale, online through a subscription program. The new program, launched in late 2016 and chosen by

players, generates \$8.0 - \$10.0 million in sales annually. If digital vendors generate an additional \$8.0 million in annual sales, a highly optimistic estimate, (1) assuming they are all new sales (and not a transition from the Lottery's current internet subscription service, or current retailer sales), and (2) based on industry experience, it could represent approximately \$2.0 million in additional annual profits for the Lottery Proceeds Fund.

9. Specific Agency or Political Subdivisions Affected: Virginia Lottery, Department of Education, and courts.

10. Technical Amendment Necessary: Line 256, strike "State Lottery Department" and insert "Virginia Lottery".

11. Other Comments: The fiscal impact statement was revised to include the potential costs for violation of §§ 58.1-4007.4, 58.1-4014, or 58.1-4015, Code of Virginia, which would result in a Class 1 misdemeanor.

This bill is a companion to HB 849 (Peace).