

Department of Planning and Budget 2020 Fiscal Impact Statement

1. Bill Number: HB1383-ER

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

2. Patron: Bulova

3. Committee: Passed Both Houses

4. Title: Virginia Lottery; Internet sales.

5. Summary: Repeals the prohibition on selling lottery tickets over the Internet.

6. Budget Amendment Necessary: Indeterminate – see Item 8. The proposed legislation is expected to have an expenditure impact to the Virginia Lottery and an increase in lottery profits, which are constitutionally dedicated to support local public education, and deposited into the Lottery Proceeds Fund, from which appropriated expenditures are made by the Virginia Department of Education.

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 implementation of iLottery.

House budget amendment Item 488 #2h of HB 30 provides the Virginia Lottery with 10 full-time equivalent (FTE) positions in fiscal years 2021 and 2022 pursuant to the passage of HB 1383.

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

8. Fiscal Implications: The Virginia Lottery would procure a contract with a gaming system provider to support the additional distribution of lottery products through iLottery, an application that allows users to purchase lottery tickets online via smartphone, computer, and other electronic devices. All costs of the iLottery gaming application and related supporting activities would be funded from the online sale of lottery products. According to the Virginia Lottery, these types of contracts are typically a combination of start-up costs and ongoing expenses, and would become part of the Virginia Lottery's overall financial results that are audited annually by the Auditor of Public Accounts.

The Virginia Lottery would require additional FTEs to provide information security support, gaming support, legal and regulatory compliance, contract management, and financial compliance activities; however, the number of additional FTEs needed to implement iLottery

is not available at this time. The Virginia Lottery would need to increase its maximum employment level and nongeneral fund appropriation beginning in fiscal year 2021 to fund the agency's ongoing personal and nonpersonal expenses to support iLottery. The additional nongeneral fund appropriation would be limited to the percentages of revenues as prescribed by law.

The sale of lottery tickets online also may generate an indeterminate amount of additional revenue for the Commonwealth through the Commonwealth Setoff Debt Collection Act for all prizes \$100 or greater, and state income taxes from the reporting and withholding of eligible prizes. In fiscal year 2019, the Virginia Lottery collected \$2.5 million in unpaid debts for the Commonwealth and nearly \$5 million in Virginia tax withholdings from prizewinners.

The Joint Legislative Audit and Review Commission's (JLARC) 2019 report, "Gaming in the Commonwealth", identified six states that have implemented iLottery within the past two to three years. Among the six states, Michigan had the highest iLottery sales of \$125 million, which represented 3.5 percent of the state lottery's total sales. The JLARC report indicated that Virginia may experience similar sales and proceeds as Michigan in the first year of implementing iLottery, which would total approximately \$78 million in annual sales and \$12 million in total annual proceeds after payment of prizes, retailer commissions, and Lottery operating expenses. It should be noted that the estimated \$12 million in annual proceeds assumes iLottery sales are new sales and do not affect the sale of other lottery products.

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

10. Technical Amendment Necessary:

Line 28, strike "internet" and insert "Internet".

11. Other Comments: This bill is identical to SB 922-ER (Norment).