

Department of Planning and Budget 2020 Fiscal Impact Statement

1. Bill Number: SB922-S1

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

2. Patron: Norment

3. Committee: Finance and Appropriations

4. Title: Virginia Lottery; Internet sales.

5. Summary: Repeals the prohibition on selling lottery tickets over the Internet. The substitute incorporates Senate Bill 959 (Barker).

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.

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 may require additional full-time equivalent (FTE) employees 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 Joint Legislative Audit and Review Commission's (JLARC) 2019 report, "Gaming in Virginia", 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. However, the estimated \$12 million in annual proceeds assumes iLottery does not affect the sale of other lottery products. The estimated revenue impact includes profits from the sale of lottery tickets online less prizes and operating costs.

The proposed legislation may also generate 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.

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

10. Technical Amendment Necessary: No.

11. Other Comments: This bill is identical to HB 1383 (Bulova). A technical amendment is needed to HB 1383 to change “internet” to “Internet”.