

**Department of Planning and Budget
2025 General Assembly Session
State Fiscal Impact Statement**

(with varying fees as described in the act and fiscal analysis below). The Lottery may approve up to 30,000 devices and impose a monthly fee of \$1,200 per device to be deposited into the Virginia Gaming Commerce Regulation Fund and distributed as required by the bill.

Criminal penalties associated with this legislation requires minimum “Woodrum” impact funding per § 30-19.1:4, Code of Virginia, to account for a possible increase in the need for state prison beds due to this legislation.

General Fund Expenditure Impact:

<u>Agency</u>	<u>FY2025</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>	<u>FY2030</u>
Department of Corrections (Item 390)	\$0	\$50,000	\$0	\$0	\$0	\$0
Department of Taxation (Item 258)	\$0	\$12,500	\$12,500	\$12,500	\$12,500	\$12,500
Department of Taxation (Item 260)	\$0	\$153,620	\$0	\$0	\$0	\$0
TOTAL	\$0	\$216,120	\$12,500	\$12,500	\$12,500	\$12,500

Nongeneral Fund Revenue Impact:

<u>Agency</u>	<u>FY2025</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>	<u>FY2030</u>
Department of Behavioral Health and Developmental Services (Problem Gambling Treatment and Support Fund – Net Impact)	\$0	\$3,066,480	\$4,686,480	\$6,306,480	\$6,306,480	\$6,306,480
Elementary and Secondary Education Fund	\$0	\$151,200,000	\$226,800,000	\$302,400,000	\$302,400,000	\$302,400,000
Department of Taxation (Gaming Commerce Regulation Fund - Locality Distribution)	\$0	\$32,400,000	\$48,600,000	\$64,800,000	\$64,800,000	\$64,800,000

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Virginia State Police (Office of the Gaming Enforcement Coordinator)	\$0	\$5,400,000	\$8,100,000	\$10,800,000	\$10,800,000	\$10,800,000
Virginia Department of Transportation (I-81 Corridor Improvement Fund)	\$0	\$6,480,000	\$9,720,000	\$12,960,000	\$12,960,000	\$12,960,000
Virginia Lottery (Gaming Regulatory Fund – costs of administration and oversight of electronic gaming devices)	\$0	\$6,480,000	\$9,720,000	\$12,960,000	\$12,960,000	\$12,960,000
Virginia Military Survivors and Dependents Education Program	\$0	\$10,800,000	\$16,200,000	\$21,600,000	\$21,600,000	\$21,600,000
Lottery Proceeds Fund	\$0	(\$129,532,500)	(\$164,126,250)	(\$218,835,000)	(\$218,835,000)	(\$218,835,000)
School Construction Fund (Casino taxes reduction)	\$0	(\$14,483,100)	(\$14,483,100)	(\$14,483,100)	(\$14,483,100)	(\$14,483,100)
TOTAL	\$0	\$71,810,880	\$145,217,130	\$198,508,380	\$198,508,380	\$198,508,380

Nongeneral Fund Expenditure Impact:

<u>Agency</u>	<u>FY2025</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>	<u>FY2030</u>
Lottery (Item 480)	\$0	\$6,480,000	\$9,720,000	\$12,960,000	\$12,960,000	\$12,960,000
State Police (Item 415)	\$0	\$264,175	\$253,041	\$253,041	\$253,041	\$253,041
Alcoholic Beverage Control Authority (Item 489.10)	TBD	\$8,289,080	\$6,217,400	TBD	TBD	TBD
TOTAL	\$0	\$15,033,255	\$16,190,441	\$13,213,041	\$13,213,041	\$13,213,041

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Position Impact:

<u>Agency</u>	<u>FY2025</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>	<u>FY2030</u>
Lottery	0	40	40	40	40	40
State Police	0	2	2	2	2	2
Alcoholic Beverage Control Authority	0	23	23	0	0	0
TOTAL	0	65	65	42	42	42

Fiscal Analysis:

This bill authorizes the Virginia Lottery (Lottery) to approve up to 30,000 electronic gambling devices with monthly gaming tax revenues of \$1,200 per device to be deposited into the Virginia Gaming Commerce Regulation Fund. The Fund shall be allocated as follows: 1.5% to the Problem Gambling Treatment and Support Fund, 70% to the Elementary and Secondary Education Fund (as established by this bill), 15% to the Department of Taxation for distribution to the locality hosting the machine provided that such locality agrees to appropriate at least 33% to local law enforcement, 2.5% to the Virginia State Police Office of the Gaming Enforcement Coordinator, 3% to the Interstate 81 Corridor Improvement Fund, 3% to the Gaming Regulatory Fund (at the Lottery) to cover program costs, and 5% for the purposes of financial aid waivers and related stipends provided under the Virginia Military Survivors and Dependents Education Program and Fund.

The bill also authorizes the Lottery to grant licenses for manufacturers, distributors, operators, and host locations. The annual fee for manufacturers and distributors is \$250,000; the annual fee for operators is \$25,000; and the annual host fee is \$1,000 for a location that does not meet the definition of a “truck stop” and \$2,500 for a location that does meet the definition of a “truck stop.” The impact of these licensing fees is unknown at this time, but could be estimated at \$3 million in the first year, growing to \$5 million by the third year. All fees shall be deposited into the Gaming Regulatory Fund at the Lottery.

Additional staffing and spending authority will be necessary for the Lottery to establish the regulatory oversight of this activity, and distribute funds to localities, by June 30, 2026. The cost of the central accounting system, licensing system, and system to distribute revenues to localities, as well as staffing and regulatory costs, is unknown, but estimated to exceed the allocation of tax revenues as set out in the bill (5% of the monthly gaming tax revenues) and licensing fees. The expenditure impacts shown in the table above are based solely on 5% of projected tax revenues, and do not reflect the estimated expenditures necessary for the program.

The Lottery indicates that the authorization of this gaming activity will reduce lottery profits and transfers to the Lottery Proceeds Fund, and is also expected to reduce casino tax revenues. Reduction of transfers to the Lottery Proceeds Fund could result in the need for additional general fund support for K-12 education.

Due to the additional support for the Virginia Military Survivors and Dependents Education Program and Fund (VMSDEP) provided in this bill, there may be a reduction for the need in General Fund support to VMSDEP.

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The Civil and Applicant Records Exchange (CARE) at the Virginia State Police (VSP) is tasked with processing criminal history record background checks. One Fingerprint Technician and one Program Support Technician can process up to 10,000 inked fingerprint cards per year and up to 20,000 electronic fingerprint transmissions. Currently, the Department processes around 3,500 fingerprint background checks for other casino gaming licensure applicants annually. It is unknown how many additional checks would be required under this bill. If this bill significantly increases the number of fingerprint checks requiring additional nongeneral fund positions, the estimated non-prorated cost for two positions (salary and benefits) is \$177,922. This does not include rent and other one-time expenses. VSP charges \$27 for a Fingerprint Based Criminal History Records Check, this fee could offset the cost of additional positions.

It is unknown at this time who is responsible for the oversight of the Elementary and Secondary Education Fund and the disbursements of these funds to localities.

The bill makes the Alcoholic Beverage Control Authority (ABC) responsible for the administering the provisions the bill until June 30, 2026. ABC estimates that the agency will need additional auditors, positions to handle skill game registrations, and administrative and legal staff to handle the additional regulatory workload along with additional sworn enforcement personnel, which would be trained to go into establishments to inspect and audit the machines. However, the number of positions and appropriation needed to support the positions will depend on the number of skill game machines registered across the Commonwealth. For example, assuming that 10,000 skill game machines are registered, which aligns closely to the 2022 Joint Legislative Audit and Review Commission Report "Oversight and Administration of Gaming in the Commonwealth," ABC estimates a fiscal impact of \$8,289,080 in FY 2026, and \$6,217,400 in FY 2027, until the Lottery Board assumes responsibility for the regulation of skill game machines. ABC's estimates include salary and benefits for up to 23 additional FTE required to perform oversight across the Commonwealth. However, as Lottery will assume responsibilities for regulating skill games, and the temporary nature of ABC's role under the bill, ABC will rely on a large number of temporary workers and funding for overtime, particularly for sworn enforcement positions that cannot be filled with temporary personnel. First year estimated costs include one-time implementation costs to hire, train, and outfit the new employees, in addition to costs to implement an IT system to register skill game distributors, operators, and establishments. The bill identifies provisional registration fees (nongeneral fund) as the source of funding for the regulation and enforcement of skill game machines.

Estimates assume that it is the proposal's intent for ABC to develop and implement a fully functional regulation structure that can be passed along to the Lottery Board.

The bill requires that skill game machines receive certification from one of three laboratories and requires the issuance of decals bearing the Commonwealth seal that include the words "Certified Skill Game Machine" and bearing the effective dates of registration. Such decals must be affixed by the operator on each skill game machine provided to each establishment for play. The bill identifies the Lottery Board as the agency responsible for issuing the decals. However, ABC estimated the cost at \$132,400 for 10,000 machines and

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stated that actual costs would vary based on the number of machines registered. This cost is included in the total costs provided above.

Further, ABC reports that it does not have the capacity to create and administer the skill game accounting system established in the bill, which is required in each skill game machine and ticket redemption terminal operated in the Commonwealth. Therefore, ABC's estimates do not include costs for such a system.

It should be noted that the bill caps the number of skill game machines in Virginia at 30,000. Therefore, the estimate of 10,000 machines is uncertain and could underestimate the market for skill games in Virginia. If more skill games are in play in Virginia, ABC projects increased expenditures to implement the bill, though it is anticipated that costs would rise marginally, equal to the number of positions required to cover additional skill game machines.

The Department of Taxation will incur an estimated one-time expenditure of \$153,620 and on-going annual expenditure of \$12,500 to update technology systems and implement changes as required by this legislation to distribute the 15% of revenues from the Virginia Gaming Commerce Regulation Fund to localities.

This bill creates both a class 1 misdemeanor and a class 6 felony. For someone convicted of a Class 6 felony, a judge has the option of sentencing the offender to a term of imprisonment of not less than one year nor more than five years, or in the discretion of the jury or the court trying the case without a jury, confinement in jail for not more than 12 months and a fine of not more than \$2,500, either or both. Therefore, this proposal could result in an increase in the number of persons sentenced to jail or prison.

There is not enough information available to reliably estimate the increase in jail population as a result of this proposal. However, any increase in jail population will increase costs to the state. The Commonwealth currently pays the localities \$5.00 a day for each misdemeanant or otherwise local-responsible prisoner held in a jail and \$15.00 a day for each state-responsible prisoner. It also funds a considerable 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 2024), the estimated total state support for local jails averaged \$56.38 per inmate, per day in FY 2023.

Due to the lack of data, the Virginia Criminal Sentencing Commission has concluded, pursuant to § 30-19.1:4 of the Code of Virginia, that the impact of the proposed legislation on state-responsible (prison) bed space cannot be determined. In such cases, Chapter 2, 2024 Acts of Assembly, Special Session I, requires that a minimum impact of \$50,000 be assigned to the bill.

Other: This bill is similar to SB1323