

Department of Planning and Budget
2026 General Assembly Session
State Fiscal Impact Statement

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ORIGINAL

Bill Number: HB161

Patron: Simon

Bill Title: Virginia Lottery; casinos; internet gaming authorized; penalties.

Bill Summary: Authorizes internet gaming in the Commonwealth to be regulated by the Virginia Lottery Board. The bill requires a casino gaming operator that intends to conduct internet gaming to submit a separate notice of intent to the Director of the Virginia Lottery for each internet gaming platform that it intends to offer, up to three, accompanied by a \$2 million platform fee that is to be deposited into the Internet Gaming Platform Fee Holding Fund for the purpose of funding start-up costs and other costs associated with the implementation and creation of a gaming commission. The bill permits the Board to issue an internet gaming operator license to a casino gaming operator that submits an application on forms approved by the Board, meets certain qualifications, and pays an initial licensing fee of \$500,000. The tax rate is set at 15 percent of an internet gaming operator's adjusted gross internet gaming revenue with five percent allocated to the Problem Gambling Treatment and Support Fund, six percent allocated to the Internet Gaming Hold Harmless Fund until January 1, 2030, and the remaining 89 percent before January 1, 2030, and 95 percent after January 1, 2030, allocated to the general fund.

Budget Amendment Necessary: Yes

Items Impacted: Items 390, 480, 481

Explanation: Indeterminate – specific budget impacts are not yet available, please see the preliminary information below.

Fiscal Summary: This bill will create new revenues for the General Fund and Problem Gambling Treatment and Support Fund and could reduce revenues to the Lottery Proceeds Fund and School Construction Fund, due to negative impacts on lottery sales and profits, and casino gaming taxes. Any reduction to the Lottery Proceeds fund will require a corresponding general fund increase to Direct Aid.

The bill also creates two new funds. Funds deposited to the Internet Gaming Platform Fee Holding Fund from platform fees shall be used to fund start-up costs and other costs associated with the implementation and creation of a gaming commission. Funds deposited to the Internet Gaming Hold Harmless Fund shall be used to offset any loss of revenue to casino gaming operators attributed to internet gaming.

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>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>	<u>FY2030</u>	<u>FY2031</u>
Department of Corrections (799)	\$0	\$50,000	\$0	\$0	\$0	\$0

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TOTAL	\$0	\$50,000	\$0	\$0	\$0	\$0
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Nongeneral Fund Expenditure Impact:

Agency	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Lottery (172)	\$0	\$1.6 mil				
TOTAL	\$0	\$1.6 mil				

Position Impact:

Agency	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Lottery (172)	0	9	9	9	9	9
TOTAL	0	9	9	9	9	9

Nongeneral Fund Revenue Impact Estimates:

Agency	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Lottery Proceeds Fund	\$0	(\$77 mil)	(\$95 mil)	(\$131 mil)	(\$150 mil)	(\$163 mil)
TOTAL	\$0	(\$77 mil)	(\$95 mil)	(\$131 mil)	(\$150 mil)	(\$163 mil)

Fiscal Analysis: This bill will allow the Virginia Lottery (Lottery) to impose an internet gaming platform fee to any casino gaming operator that intends to conduct internet gaming with a fee of \$2 million per platform. No casino gaming operator may offer more than three internet gaming platforms. The casino gaming operator will be allowed to operate the internet gaming platform for the term of the internet gaming operator's license, prorated accordingly for terms of less than five years. The platform renewal fee is \$1 million per platform. All fees will be paid into a newly created Internet Gaming Platform Fee Holding Fund. The Lottery may also issue an internet gaming operator license fee of \$500,000 for a period of five years, with a renewal fee of \$250,000, and an Internet gaming platform provider license fee of \$50,000 for a period of five years.

The Lottery will collect a tax of 15% of the adjusted gross internet gaming revenue, with 5% of the revenues to be deposited to the Problem Gambling Treatment and Support Fund. Prior to January 1, 2030, 6% of tax revenue are to be deposited to the Internet Gaming Hold Harmless Fund and the remaining 89% deposited to the general fund. Beginning January 1, 2030, 95% of tax revenues collected are to be deposited to the general fund.

The Lottery anticipates significant regulatory and administrative costs associated with implementing the provisions of this bill. These costs include the development and promulgation of new regulations, ongoing compliance monitoring, enforcement activities, and the establishment of technology systems for licensing, reporting, and consumer protection. While the Internet Gaming Platform Fee Holding Fund is intended to offset initial start-up expenses, ongoing regulatory costs may exceed fee revenues, necessitating additional funding sources or adjustments to fee structures. The Lottery will be responsible for administering new funds,

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including the Internet Gaming Platform Fee Holding Fund and the Internet Gaming Hold Harmless Fund. This will require the development of criteria, processes, and systems for verifying claims and distributing funds to eligible casino operators, resulting in increased administrative costs. The bill also authorizes the Lottery Board to enter into agreements with other states for multijurisdictional iGaming. This may increase regulatory complexity and affect revenue projections.

The bill introduces new criminal and civil penalties for unlicensed internet gaming, tampering with gaming equipment, and illegal sweepstakes. It is anticipated that the Lottery will incur costs related to investigations, enforcement actions, hearings, and legal proceedings. Additionally, resources will be required to maintain and enforce the voluntary exclusion program for problem gamblers. The Lottery is required to implement robust consumer protection measures, including responsible gaming features such as deposit limits, time limits, self-exclusion options, and prominent display of problem gambling resources. These requirements will necessitate additional operational and technology investments, and public awareness initiatives.

Legalization of iGaming will create new tax revenue from that activity, but is not projected to outpace the reduction in revenues from iLottery profits and taxes on casino gaming. Reduction of transfers to the Lottery Proceeds Fund could have a potential impact to the general fund. Due to limited data, preliminary estimates of profit lost to the Lottery Proceeds Fund are provided above based on the current iLottery platform performance and the impact of iGaming on iLottery platforms in other jurisdictions.

Estimates of additional personnel required implement the provisions of this bill, as provided by senior management of the gaming division of the Lottery based on their knowledge of current duties and workload, include an additional manager and eight investigators, resulting in an estimated \$1.16M of personnel expenses in FY27, continuing for each following year.

The Lottery remains the regulator of iLottery and would also regulate a directly competing digital product (online slots/table games) with no statutory hold harmless for Lottery profits, while it gives casinos a temporary hold harmless of their own. A study by Analysis Group concluded that Lotteries with high retail sales (such as Michigan and Pennsylvania) have seen increased casino revenues due to iGaming. Evidence from Eilers & Krejcik Gaming suggests that iGaming slows iLottery growth. iLottery accounts for over half of the Lottery's sales and therefore even modest impacts to iLottery sales will have meaningful impacts and the increased casino revenue may not make up for the loss in iLottery sales. There are risks of cannibalization of Lottery profits as well as a need for statewide gaming.

This bill states that the Lottery shall promulgate regulations necessary to implement the provisions of this act by September 30, 2026. If multiple bills related to gaming or the creation of the Virginia Gaming Commission are passed by the General Assembly, the Lottery Board may not able to adopt all such regulations by the September 30 deadline as the provisions of this act do not go into effect until July 1, 2026.

The impact to Direct Aid is unknown at this time, however, any reduction to the Lottery Proceeds Fund requires a corresponding general fund increase for Direct Aid.

The Department of Taxation (TAX) indicates this bill presents no fiscal impact to TAX.

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It is unknown at this time if the provisions of this bill will create a fiscal impact to the Office of the Attorney General and Department of Law or the Virginia State Police.

This bill creates a Class 5 felony and a Class 6 felony. Anyone convicted of a class 5 felony is subject to a term of imprisonment of not less than one year nor more than 10 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. Anyone convicted of a class 6 felony is subject 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 2025), the estimated total state support for local jails averaged \$58.25 per inmate, per day in FY 2024.

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 725, 2025 Acts of Assembly, requires that a minimum impact of \$50,000 be assigned to the bill.

Other: Implementation of the program could be impacted by the pending outcome of Virginia Gaming Commission Bills (HB271/SB195). This bill is similar to the substitute for SB118.