

Fiscal Impact Review 2026 General Assembly Session

Bill number: SB 118 (Substitute) Virginia Lottery; Internet gaming authorized, penalties.

Review requested by: Chair Lucas; Senate Finance and Appropriations Committee

Date: February 13, 2026

JLARC Staff Fiscal Estimates

SB 118 is projected to generate a net revenue increase to the Commonwealth of \$240 million in FY28 from taxes levied on iGaming, which is projected to grow to approximately \$845 million by FY32. This accounts for an estimated negative impact on iLottery revenues, which would be in direct competition with iGaming. The state is also projected to generate an additional \$26.1 million in initial operator and platform license fees in FY28 and \$13 million in renewal fees every five years thereafter.

JLARC staff concur with Virginia Lottery's conclusion that Lottery will incur \$1.16 million of personnel expenses beginning in FY28 because of additional regulatory and administrative requirements¹. Tax revenues allocated to the Gaming Regulator Fund are expected to cover these costs, including in future years after accounting for annual personnel cost increases.

SB 118 would authorize internet gaming ("iGaming") in the Commonwealth beginning in FY28, which would be regulated by the Virginia Lottery Board.

An explanation of the JLARC staff review is included on the pages that follow.

¹ JLARC assessed the fiscal impact statement for HB 161 when determining the impact of SB 118 on Virginia Lottery's administrative costs and the Department of Corrections. There was not a FIS for SB 118 at the time of this analysis (2/13/26).

Bill summary

SB 118 would authorize internet gaming ("iGaming") in the Commonwealth to be regulated by the Virginia Lottery Board. The bill would permit the board to issue an iGaming operator license to four of the five casino gaming operators in Virginia, provided the casino gaming operator applies to the Virginia Lottery Board, meets certain qualifications, and pays an initial licensing fee of \$500,000. An iGaming license would be valid for five years, with a renewal fee of \$250,000. The bill would require a casino gaming operator intending to conduct iGaming to submit a separate notice of intent to the Virginia Lottery director for each iGaming platform that it intends to offer. Each casino could offer up to three iGaming platforms, with a \$2 million fee required for each platform. A qualified entity may request a temporary iGaming platform provider license from the board, which would require a supplemental platform fee of \$10,000 payable to the board.

The bill would establish a 20 percent tax on an iGaming operator's adjusted gross iGaming revenue, which would be collected by the Virginia Lottery. The Lottery would allocate 95 percent of the tax revenue to the Modern Public Education Fund; 3 percent of the tax revenue to the Gaming Regulatory Fund for the costs associated with the operation, administration, and enforcement of the proposed legislation; and 2 percent of the tax revenue to the Problem Gambling Treatment and Support Fund.

In addition to the 20 percent tax, the bill would impose a 6 percent economic development fee on an iGaming operator's net gaming revenue to be allocated to the Casino Gaming Hold Harmless Fund. Until July 1, 2032, money in the Fund would be used solely to distribute equal monthly payments to casino gaming operators in eligible host cities (Bristol, Danville, Norfolk, and Portsmouth). Beginning July 1, 2032, the casino gaming operators in those four cities would be required to demonstrate a loss of revenue attributable to iGaming to receive such funds.

The bill also would introduce new criminal and civil penalties for operating unlicensed iGaming (Class 6 felony); tampering with gaming equipment or operating any internet game that has been tampered with (Class 5 felonies); and offering or conducting an illegal sweepstakes (civil penalty).

Fiscal implications

SB 118 would result in an estimated \$343 million in FY28 to over \$1 billion in FY32 in non-general fund revenue for the Commonwealth. The revenue would be generated from the 20 percent tax on iGaming revenue and an additional 6 percent economic development fee.

SB 118 would also generate one-time revenue of \$26.1 million from new operator and platform license fees levied on iGaming operators, as well as \$13 million in revenue from renewals every five years thereafter.

This new revenue would be partially offset by a decline in revenue generated by Virginia's iLottery games, which would directly compete with iGaming. iLottery revenues are projected to decline 25.5 percent in FY28 and 1.4 percent per year thereafter if iGaming is introduced in Virginia. This equates to a decline of \$103 million (33 percent) from the iLottery net revenue projected for FY28 and \$217 million (53 percent) below the net revenue projected for FY32.

JLARC staff concur with the Virginia Lottery's conclusion that Lottery will incur \$1.16 million in additional personnel costs for nine new licensing and compliance staff beginning in FY28 because of new regulatory and administrative requirements included in SB 118. iGaming tax revenue allocated to the new Gaming Regulatory Fund would cover these costs.

JLARC staff concur with the Virginia Criminal Sentencing Commission's conclusion that the increased costs of prison stays associated with the introduction of iGaming cannot be determined, and so the statutory minimum impact of \$50,000 has been assigned.

Estimated net iGaming revenue and state tax revenue

JLARC projects that a fully mature iGaming market in Virginia would generate an estimated \$3.56 billion in net gaming revenue in FY31, the first year in which the iGaming market is expected to be fully mature². Two metrics were used to produce an estimated range of iGaming revenue for FY31: (1) the average iGaming net revenue per gambling age resident for FY25³ in other states and (2) iGaming net revenue as a proportion of sports wagering revenue as identified in a 2024 consultant's report⁴. An annual growth rate of 15 percent was applied to the two estimates to project FY31 revenue⁵. This results in a range of \$3.38 billion (metric 1) to \$3.73 billion in iGaming net

² FY28 would be the first year of iGaming in Virginia under SB 118.

³ The average iGaming net revenue per gambling age adult was \$222.32 in FY25 across CT, DE, MI, NJ, PA, RI, and WV. (These are the only 7 states with iGaming.)

⁴ The ratio of iGaming net revenue was 2.16 times greater than sports betting revenue in a typical state, according to analysis by the Analysis Group for the report *The Potential Economic Impact of Legalizing iGaming on Casino Revenues in Five States: New York, Illinois, Louisiana, Maryland, and Virginia* (March 18, 2024). This appears to be a conservative estimate.

⁵ The 15 percent growth rate is a conservative assumption for annual iGaming growth in future years. It represents the lowest mature market year-over-year growth observed in any of the seven iGaming states during the past four years (New Jersey grew by 15 percent from FY22 to FY23). From FY21 to FY24, the

revenue (metric 2). JLARC staff used the midpoint of this range, \$3.56 billion, as the projected net gaming revenue for a fully mature market in FY31.

Assuming a mature iGaming market in FY31, JLARC staff then calculated iGaming revenue for FY28 through FY30 using a growth rate assumption higher than 15 percent, because other states have experienced revenue growth rates that exceed their mature market growth rates in the first years after iGaming was introduced⁶. Applying larger annual growth rates results in a midpoint estimate of \$1.32 billion in net gaming revenue in FY28, \$1.89 billion in FY29, and \$2.68 billion in FY30, before reaching full maturity at \$3.56 billion in FY31. Then a 15 percent growth rate was applied to project \$4.09 billion iGaming net revenue in FY32.

Finally, JLARC staff projected state revenue using SB 118's proposed tax rates. SB 118 proposes a 20 percent tax rate for iGaming net revenue. An additional 6 percent economic development fee would be applied to iGaming net revenue under the proposed bill, which would be distributed to eligible casino operators to compensate for potential impacts of iGaming to their in-person business. Table 1 shows estimated iGaming net revenue and state tax revenue for each fiscal year from FY28 to FY32.

TABLE 1
iGaming five-year revenue projections (\$ millions)

	FY28	FY29	FY30	FY31	FY32
iGaming net revenue	1,319	1,895	2,683	3,555	4,088
Total revenue to the Commonwealth	343	493	698	924	1,063
iGaming tax revenue	264	379	537	711	818
<i>Modern Public Education Fund</i>	251	360	510	676	777
<i>Gambling Regulatory Fund</i>	8	11	16	21	25
<i>Problem Gambling Treatment & Support Fund</i>	5	8	11	14	16
iGaming economic development fee	79	114	161	213	245

NOTE: Numbers may not sum because of rounding. SB 118 calls for a 20 percent tax on iGaming net revenue, 95 percent of which would be allocated to the Modern Public Education Fund, 3 percent to the Gaming Regulatory Fund, and 2 percent to the Problem Gambling Treatment & Support Fund. Additionally, SB 118 also calls for a 6 percent economic development fee applied to iGaming net revenue.

average growth in annual iGaming net revenue across states was 55 percent per year, and the median was 32 percent per year.

⁶ This is based on the iGaming net revenue growth rate observed through the first four years in the three states that launched iGaming since FY21 (CT, MI, and WV). The median annual growth rate in these three states was 44 percent (year 1 to 2), 42 percent (year 2 to 3), and 33 percent (year 3 to 4).

iGaming impact on iLottery revenue

Introduction of new types of gaming commonly reduces revenue generated by existing types of gaming. These effects are greatest for similar gaming types that attract similar players. Virginia's iLottery⁷ is similar to iGaming and likely to be impacted by the introduction of iGaming⁸. JLARC projected iGaming's negative impact on iLottery by reviewing iLottery revenue data from eight states⁹, focusing on Michigan and Pennsylvania because they are the only two states that launched iGaming when they had an existing iLottery and have multiple years of data available for review¹⁰. iLottery revenue was analyzed for the other six states.

Michigan's and Pennsylvania's iLottery revenues were negatively impacted by the introduction of iGaming when compared to iLottery revenue in states without iGaming (Figure 1). Michigan introduced iGaming partway through FY21¹¹, at which point iLottery revenue growth slowed, especially relative to other states that were experiencing large increases in iLottery revenue during the pandemic¹². Michigan's iLottery revenue declined for FY22, while all other states without iGaming experienced continued growth coming out of the pandemic. Likewise, Pennsylvania introduced iGaming for FY20, experienced low iLottery growth relative to non-iGaming states in FY21, and then experienced a decline in iLottery revenue in FY22.

⁷ iLottery comprises instant games, which are interactive digital versions of traditional scratch-off tickets that are played directly on the Virginia Lottery website or mobile app.

⁸ JLARC's 2019 Report *Gaming in the Commonwealth* found that iGaming would compete with iLottery and likely cause a meaningful negative impact to iLottery revenue because of their similarities.

⁹ Georgia, Kentucky, Michigan, New Hampshire, North Carolina, Pennsylvania, Rhode Island, and Virginia.

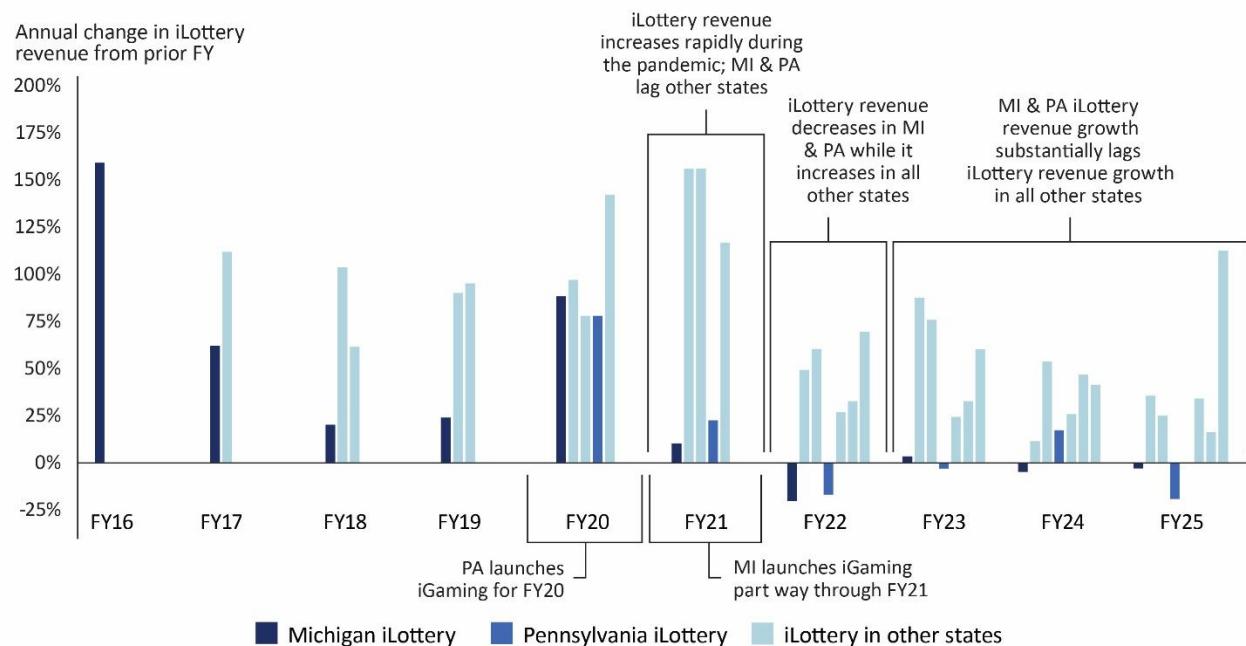
¹⁰ Michigan iLottery was introduced in July 2014, and iGaming was introduced in January 2021. Pennsylvania iLottery was introduced for FY19, and iGaming was introduced for FY20. Rhode Island introduced iLottery in FY21 and iGaming in FY25 but had insufficient longitudinal data to analyze because iGaming is so new.

¹¹ Michigan uses an October 1 to September 30 fiscal year.

¹² Both iLottery and iGaming experienced rapid growth during FY20 and FY21 as players began using virtual gaming platforms such as iLottery and iGaming.

Figure 1

Michigan and Pennsylvania's annual iLottery revenue growth was negatively impacted after the introduction of iGaming



NOTE: JLARC analyzed iLottery revenue for Michigan, Pennsylvania, Kentucky, New Hampshire, Rhode Island, Virginia, North Carolina and iLottery sales for Georgia. KY, VA, NC, and GA do not have iGaming; RI launched iGaming for FY25. Not all states had iLottery during each year shown; Michigan's first full year of iLottery was FY15, and Pennsylvania's first year of iLottery was FY19.

Michigan and Pennsylvania also had lower iLottery gaming revenue per capita than four states with a mature iLottery market and no iGaming in FY25, likely reflecting the effects of competition from iGaming. Michigan's iLottery revenue per gambling age resident was \$24 and Pennsylvania's was \$8, compared to an average of \$34 in the other four states¹³ (including Virginia at \$31).

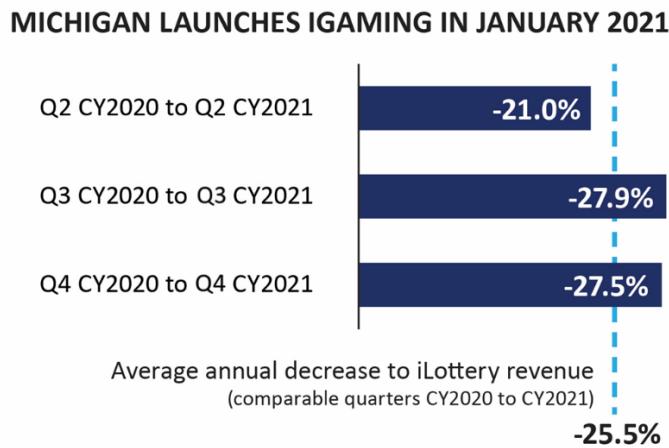
Michigan is a better indicator than Pennsylvania of the potential magnitude of iGaming's impact on iLottery revenues in Virginia. Michigan had a fully mature iLottery market when iGaming was introduced, as would Virginia¹⁴. Michigan's iLottery revenue decreased an average of 25.5 percent in the three quarters following the introduction of iGaming compared with the same three quarters in the prior year (Figure 2). This decline in Michigan's iLottery revenue occurred while other states were experiencing a rapid

¹³ Kentucky, New Hampshire, North Carolina, and Virginia.

¹⁴ Michigan's first year of iLottery (FY15) was six years prior to iGaming (FY21) and Virginia's first year of iLottery (FY21) will have been in place for seven years prior to an FY28 introduction of iGaming under SB118. Pennsylvania's iLottery (FY19) was only in place for one year prior to iGaming (FY20).

increase in iLottery revenue because of changes to players' gaming behavior during the COVID-19 pandemic.

Figure 2
Quarterly impact of introduction of iGaming on iLottery in Michigan



NOTE: Quarter 1 (Q1) is excluded because Q1 of calendar year 2020 was prior to the COVID-19 pandemic; changes to gaming behavior at the onset of the pandemic marked rapid growth in both iGaming and iLottery revenue across states. Therefore, Q1 2020 (pre-covid) is not a valid comparison for iLottery revenue in Q1 2021 (post-COVID).

SOURCE: Michigan monthly iLottery revenue per capita provided by Virginia Lottery.

Virginia's iLottery revenues are projected to experience a significant decrease in the year iGaming is introduced and then smaller decreases in future years. Based on Michigan's experience, JLARC projects an initial 25.5 percent decrease to iLottery revenues following the launch of iGaming in FY28, followed by an annual 1.4 percent decrease thereafter¹⁵. This would result in iLottery revenue decreasing \$103 million (33 percent) below the level projected by Virginia Lottery for FY28 and \$217 million (53 percent) below projected levels by FY32 (Table 2).

¹⁵ Michigan (-1.2 percent) and Pennsylvania (-1.5 percent) averaged -1.4 percent annual decline in iLottery revenue from FY22 to FY25, the three fiscal years after the initial impact of iGaming and the pandemic had passed.

TABLE 2

Projected year-over-year change in iLottery revenue with iGaming (\$ millions)

	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Projected iLottery revenue <u>with</u> iGaming	243	275	205	202	199	196	194
iLottery year-over-year revenue change (%)		13%	-25.5%	-1.4%	-1.4%	-1.4%	-1.4%
iLottery year-over-year revenue change (\$)		32	(70)	(3)	(3)	(3)	(2)

NOTE: FY26 and FY27 projected iLottery revenue provided to JLARC by Virginia Lottery. Numbers may not sum due to rounding. Assumes iGaming is launched for FY28.

TABLE 3

iLottery revenue projections with and without iGaming (\$ millions)

	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Projected iLottery revenue <u>without</u> iGaming	243	275	308	338	365	387	411
Projected iLottery revenue <u>with</u> iGaming	243	275	205	202	199	196	194
iLottery revenue below projected (%)	0	0	33%	40%	46%	49%	53%
iLottery revenue below projected (\$)	0	0	(103)	(137)	(166)	(191)	(217)

NOTE: Projected iLottery revenues provided to JLARC by Virginia Lottery. Numbers may not sum because of rounding. Assumes iGaming is launched for FY28.

Net increase in state revenue from iGaming when accounting for negative impacts to iLottery revenues

The introduction of iGaming would increase overall revenue to the Commonwealth because the gains in iGaming tax revenue would exceed the projected reduction in iLottery revenues (Table 4). This would amount to an estimated \$240 million increase in net revenue to the state in FY28 and \$845 million by FY32.

TABLE 4

Virginia is expected to experience a positive net change in revenue if iGaming is implemented, despite projected iLottery losses (\$ millions)

	FY28	FY29	FY30	FY31	FY32
iGaming total revenue to the Commonwealth	343	493	698	924	1,063
<i>iGaming tax revenue</i>	264	379	537	711	817
<i>iGaming economic development fee</i>	79	114	161	213	245
iLottery revenue below projected	(103)	(137)	(166)	(191)	(217)
Net change in state revenue^a	240	356	531	733	845

NOTE: Numbers may not sum because of rounding. SB 118 calls for a 20 percent tax on iGaming net revenue, 95 percent of which would be allocated to the Modern Public Education Fund, 3 percent to the Gaming Regulatory Fund, and 2 percent to the Problem Gambling Treatment & Support Fund. SB 118 also calls for a 6 percent economic development fee applied to iGaming net revenue.

^aNet change in state revenue is iGaming total revenue to the Commonwealth from iGaming tax revenue and economic develop fee less iLottery revenue loss.

SOURCE: JLARC analysis.

Revenue generated by license fees

JLARC staff estimate that iGaming operator license fees and iGaming platform license fees proposed in SB 118 would generate approximately \$26.1 million in new revenue in FY28 from initial fees and \$13 million in revenue from renewal fees every five years, beginning in FY33.

Under the definition of eligible iGaming operators proposed in SB 118, four entities would be eligible to seek an iGaming operator license, which requires an initial licensing fee of \$500,000. Key stakeholders indicate that all eligible entities are expected to seek a license; therefore, initial licensing fees are expected to generate \$2 million in new revenue to the state in FY28. iGaming operator licenses would be valid for five years and require a \$250,000 renewal fee, which is expected to generate \$1 million in additional revenue in FY33 and every five years thereafter.

Additionally, under SB 118, each iGaming operator may contract with up to three iGaming platform providers to operate an iGaming platform on its behalf. Platform providers must also be licensed by the Virginia Lottery Board, which requires an application fee of \$2 million. Key stakeholders indicate that operators are likely to offer the maximum allowable platforms, requiring 12 total iGaming platform licenses, which would generate \$24 million in new one-time revenue in FY28. Each platform provider could also seek a temporary license prior to full licensure, which would require a

supplemental \$10,000 fee. These fees are expected to generate an additional \$120,000 in one-time revenue to the state in FY28. Platform provider licenses would be valid for five years and require a \$1 million renewal fee, which is expected to generate \$12 million in additional revenue to the state in FY33 and every five years thereafter.

Fiscal impact of SB 118 Virginia Lottery administrative costs

SB 118 would assign new regulatory and administrative responsibilities to the Virginia Lottery, which Lottery anticipates will require additional personnel at a cost of \$1.16 million in FY28 and following years. JLARC staff concur with Lottery's estimate of personnel costs in FY28 but anticipate that these costs will increase in subsequent years because of typical increases in personnel costs.

Senior management of the Lottery's gaming division reviewed current staff duties and workload and determined SB 118's iGaming regulatory and administrative responsibilities would require an additional manager of gaming compliance and eight additional licensing investigators. The average salary of current gaming compliance and investigation managers is \$117,793, with additional benefits of \$42,537. The average salary of licensing investigators is \$89,256, with additional benefits of \$35,982. The total fiscal impact of these nine additional positions is anticipated to be \$1,162,237 in FY28. JLARC staff anticipates these personnel costs will increase an estimated 5 percent annually, based on the statewide 10-year average increase in personnel services (FY16–FY25) (Table 5).

Table 5
Virginia Lottery's personnel costs would increase from new staff needed to regulate iGaming (\$ millions)

	FY28	FY29	FY30	FY32	FY32
Virginia Lottery personnel costs	1.16	1.22	1.28	1.35	1.41

NOTE: JLARC staff estimated a 5 percent annual increase in fund expenditures based on the statewide 10-year average increase in personnel services (FY16–FY25).

SOURCE: Virginia Lottery's projections included in the fiscal impact statement for HB 161.

The additional personnel costs associated with Virginia Lottery's new iGaming regulatory and administrative responsibilities would be covered by tax revenues dedicated to the Gaming Regulatory Fund created by SB 118. Three percent of the tax revenue collected from iGaming operators would be allocated to the fund. Based on JLARC's analysis of iGaming revenue in other states, JLARC staff estimate the Gaming Regulatory Fund

would receive approximately \$8 million in FY28, with funds increasing each fiscal year to approximately \$25 million in FY32. These funds would be more than sufficient to cover the Lottery's anticipated personnel costs.

Fiscal impact of SB 118 on Department of Corrections

JLARC staff concurs with the Virginia Criminal Sentencing Commission's conclusion that the impact of the proposed legislation on state adult correctional facilities, local adult correctional facilities, adult community corrections programs, juvenile direct care, and juvenile detention facilities cannot be determined. Existing data is not sufficient to determine the number of felony convictions that could occur from the proposed legislation.

Budget amendment necessary? Yes

Agencies affected: Virginia Lottery, Department of Corrections

Patron: Senator Locke

Prepared by: Joe McMahon and Dillon Wild

Date: February 13, 2026