

**Sports Wagering Procurement Practices Reform  
Exemption Act of 2019  
Bill 23-25**

**Before the Committee on Finance and Revenue**

**The Honorable Jack Evans, Chairman**

**January 28, 2018, 10:00 AM  
Room 412, John A. Wilson Building**



**Testimony of  
Beth Bresnahan  
Executive Director  
Office of Lottery and Charitable Games**

**Jeffrey S. DeWitt  
Chief Financial Officer  
Government of the District of Columbia**

Good morning, Chairman Evans, and members of the Committee on Finance and Revenue. I am Beth Bresnahan, Executive Director of the Office of Lottery and Charitable Games (“the Lottery”). With me today is Jeffrey S. DeWitt, Chief Financial Officer, and Dr. Fitzroy Lee, Chief Economist and Deputy CFO for the Office of Revenue Analysis. Thank you for this opportunity to testify on Bill 23-25, the “Sports Wagering Procurement Practices Reform Exemption Act of 2019.” This bill exempts the initial procurement for a combined sports wagering, lottery gaming system and related services contract from the Procurement Practices Reform Act of 2010. In effect, it provides the District of Columbia with first-mover advantage with respect to the recently-approved sports wagering legislation and modernization of the current lottery gaming system.

Last May, the U.S. Supreme Court overturned the long-standing prohibition against sports wagering, providing a new revenue opportunity for jurisdictions throughout the country. On December 18, 2018, the Council approved the Sports Wagering Lottery Amendment Act of 2018, which legalizes sports wagering in the District and designates the Lottery as the regulator of private operators. It also designates the Lottery as an operator through a digital and mobile platform, and a network of licensed retailers.

This new law positioned the District as the first jurisdiction in the DMV market to legalize sports wagering, an advantageous position given this highly-competitive gaming region. The District will be the only jurisdiction in the U.S. to provide opportunities for small, locally-owned-and-operated businesses, as well as larger entities and organizations, to participate in and profit from this newly-available gaming category.

The District stands to gain financial and marketplace advantages by expeditiously launching sports wagering before Maryland and Virginia enter this limited market. This first-to-

market advantage cannot be overestimated as the District seeks to maximize revenues from sports wagering ahead of our neighboring jurisdictions. Three bills seeking to legalize sports betting have already been introduced in Virginia since the start of the 2019 legislative session earlier this month, along with legislation authorizing up to five casinos in the Commonwealth. Maryland lawmakers are exploring a way to approve sports wagering faster than a referendum would allow by regulating the new gaming category through its state lottery.

In October 2018, the Lottery retained Spectrum Gaming Group, an independent consulting firm, to provide a business analysis for regulating and operating sports wagering in the District. Spectrum's clients include U.S. and international governmental bodies; casino and lottery operators; developers; investors; and law firms. (*Please Attachment A, Spectrum Client List.*) As part of its analysis, Spectrum examined the region's current competitive gaming environment. Spectrum also provided a cost-benefit impact analysis of the implementation's timing on the District's economy given the high likelihood that Maryland and Virginia will approve sports wagering in the near future.

Among Spectrum's key findings are:

- The District's position as a "first-mover" is critical to the success of its sports wagering. If Virginia and Maryland offer sports wagering before the District, these states will be better able to establish customer relationships with their residents, thus depriving the District of potential revenue from commuters who double our adult population every work day. This revenue may never be recovered.
- The impacts of a delay of implementation to the District economy translate into approximately \$165 million<sup>1</sup> in reduced economic activity relating to sports wagering

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<sup>1</sup> Spectrum's economic impact analysis includes more than just the anticipated revenue directly from sports wagering. Spectrum's economic modeling projections include total business revenues generated by the introduction of sports wagering in the District.

over a 10-year period.

As the industry's smallest U.S. jurisdiction (and as home to the only city-run lottery), and as competition for entertainment dollars intensifies, the District must not risk losing the opportunity to be first-to-market in the DMV.

The Lottery is currently working to develop the necessary regulatory and operational framework to responsibly and effectively implement sports wagering in the District. The goal is to complete regulations and accept applications in July, with the intent of issuing licenses by September of this year. To fully support the Sports Wagering Lottery Amendment Act of 2018 and capture the market at stake, the Lottery must acquire the technology, equipment and platforms necessary to launch sports wagering on mobile devices and at retailer locations. As you may recall, the Lottery-operated mobile platform and retailer network is projected to generate 75 percent of the sports wagering revenue<sup>2</sup>.

The Lottery's current gaming system contract with Intralot, which expires on March 29, 2020, did not contemplate sports wagering when it was procured nearly 10 years ago. Under District law, the existing contract cannot be modified to include the platform and services necessary to launch this new category of gaming. Upgrading the technology that currently supports the District's 400-plus lottery retail locations, many of which will offer sports wagering, is also needed at this time.

As Spectrum's report also concludes, a change in the technology service provider at this time "would make it impossible to meet the goals of the DC Lottery to be an early mover" and retaining Intralot "is the most economically advantageous option." Spectrum noted that there is a

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<sup>2</sup> As stated in the Fiscal Impact Statement for Bill 22-944, the "Sports Wagering Lottery Amendment Act of 2018" issued on November 28, 2018.

trade-off in not pursuing a competitive process, but “these opportunity costs are outweighed by the potential revenue realized by being a first-mover and not issuing an RFP.”

Significant capital investment will be required to add the necessary technology, equipment, human capital and expertise needed to launch sports wagering and to modernize the Lottery’s existing gaming systems and equipment. It is unlikely that any vendor in the lottery or sports wagering industry would invest the necessary capital to launch sports wagering in the District without a contract that provides sufficient longevity to allow for amortization of their investment. The best value for the District is to execute a new contract with the Lottery’s current technology provider.

With approval of Bill 23-25, the Lottery, under the authority of the Office of the Chief Financial Officer, will immediately begin negotiations on a new contract with Intralot. Intralot is a highly-qualified sports wagering operator and, as the current DC Lottery operator, would bring unique knowledge and expertise as the District’s sports wagering partner. Intralot is a world-leader in sports wagering in government-regulated markets, managing approximately \$6 billion in wagers annually and supporting more than 16,000 points of sale in 29 jurisdictions globally, including Europe’s largest sportsbook.

A significant portion of Intralot’s contract is performed by DC09, Intralot’s CBE joint venture partner. Intralot has been a strong partner to the Lottery and has performed well in spite of unprecedented challenges, including intense competition from expanded gaming in neighboring states. In 2016, an independent best practices review of the Lottery was conducted by Delehanty Consulting at the request of the Chief Financial Officer. The study found “the DC Lottery to be an extremely well-run lottery that meets the unique challenges presented by operating in an extremely expensive and competitive market.” The review ranked the DC Lottery

as one of the most successful lotteries in the U.S. and a top ten lottery on a per capita basis in several operational categories.

This new contract is essential to implementing sports wagering and modernizing the Lottery. The costs of delay are significant. Issuing a competitive Request for Proposals (RFP) for a contract of this nature will take at minimum two years and three months and could take as long as three years from issuance to implementation. (*Please see Attachment B, Lottery Sports Wagering & Gaming System Competitive RFP Process Overview & Timeline.*) The procurement process for the Lottery's current gaming system took approximately two-and-a-half years from release of the first RFP in May 2007 to completion of the system conversion in November 2010. This process will cause a lengthy and costly delay in full implementation of the recently-approved sports wagering legislation. The Office of Revenue Analysis estimates that such a delay will cost the District \$60.9 million in sports wagering revenue over the FY 2019-2022 financial plan period. A competitive bid will not result in cost savings that will make up for a \$60.9 million loss in revenue caused by a 2-to-3-year delay to market. Also, during this time, there will be no capital infusion into the Lottery's sports wagering or lottery operation, jeopardizing the District's potential market share of the region's sports wagering as well as its existing lottery revenue. (*Please see Attachment C, Fiscal Impact of Delayed Start of Lottery Sports Wagering.*)

Non-competitive contract extensions or non-competitive negotiations for new contracts are not uncommon in the U.S. lottery industry. To avoid prolonged procurements for complex gaming systems and related services, and most importantly, the attendant risk of suffering considerable revenue losses, several state lotteries did not open new procurements and opted instead, to extend existing or negotiate separate contracts with their current vendors. Arkansas,

California, Georgia, Michigan, New Hampshire, New Mexico and Ohio are examples of jurisdictions that have opted to enter non-competitive procurements within the past two-and-a-half years, each of which resulted in more favorable or no change in vendor fees. In comparison, 9 of 16 state lotteries that issued RFPs over the last five years, ended up paying significantly-higher prices through new contracts awarded.

The District is best served by minimizing operational and profit risks and pursuing negotiations for a new gaming system and related services contract, that includes sports wagering, with its current gaming system vendor. The Lottery will negotiate this contract to achieve the best value for the District and meet or exceed the District's CBE requirements. Moreover, as required by law, the contract will be submitted to the Council for approval before it becomes final. The Lottery will then take all necessary steps to fully implement sports wagering and, at the same time, modernize with a digital platform and state-of-the-art technology that takes the District's gaming offerings into the 21<sup>st</sup> century.

Thank you for this opportunity to testify and we are prepared to answer any of your questions.



**Public Sector**

- Atlantic City Convention & Visitors Authority
- Bermuda Ministry of Tourism Development
- British Columbia Lottery Corporation
- Broward County, Florida
- City of Atlantic City
- Comm. of Financial Institutions – Puerto Rico
- Connecticut Division of Special Revenue
- Delaware State Lottery
- Florida Legislature
- Gambling Commission (UK)
- Georgia Lottery
- Iowa Racing & Gaming Commission
- Jamaica Betting, Lottery & Gaming Commission
- Jamaica Ministry of Finance
- Kansas Racing & Gaming Commission
- Laos Ministry of Investment and Planning
- Maine Harness Racing Commission
- Maryland Lottery Commission
- Massachusetts Gaming Commission
- Mass. Office Housing & Economic Development
- Massachusetts State Lottery Commission
- Netherlands Gaming Control Agency
- NJ Casino Reinvestment Development Authority
- NJ Division of Gaming Enforcement
- Ohio Lottery Commission
- Ohio Casino Control Commission
- Pennsylvania Department of Revenue
- Philippine Amusement & Gaming Control Corp.
- Puerto Rico Tourism Company, Gaming Division
- Republic of Croatia
- Rhode Island Lottery
- Rostov Oblast, Russia
- Saint Lucia Gaming Authority
- San Jose Office of City Manager
- Singapore Casino Regulatory Authority
- Singapore Ministry of Home Affairs
- South Jersey Transportation Authority
- St. Kitts & Nevis Ministry of Finance
- US Virgin Islands Casino Control Commission
- Washington State Gambling Commission
- West Virginia Department of Revenue
- West Virginia Lottery



**Attachment A**  
**SPECTRUM GAMING GROUP**  
**CLIENT LIST**



**Private Sector**

- Allied Dragon Investment
- American Gaming Association
- American Nonsmokers Rights Foundation
- American Racing & Entertainment
- Alpha Allied Holdings
- ARC Resorts
- Aristocrat Leisure
- Arizona Coyotes
- Aruba Caribbean Hotel
- Aruze
- Avista Capital
- Bain Capital
- Balkan Tourist Development Services
- Bank of Valletta (Malta)
- Bear Stearns Merchant Banking
- Beinert Miller & Katzman
- Biloxi Boardwalk Ventures
- Borgata Hotel Casino & Spa
- Boyd Gaming
- Bloomberry Resorts Corp.
- Bluewater Gaming Holding
- Brookfield Asset Management
- Brown Rudnick LLP
- Bridge Investment Group
- Capital L Financial Group
- Cappelli Enterprises
- Caribbean Hotel LP
- Carnival Corporation
- Caesars Entertainment
- Casino Association of New Jersey
- Casino Association of Indiana
- Casino Royale
- Centaur Gaming
- Churchill Downs Inc.
- CIBC World Markets
- Clairvest Group
- Coalition for Responsible Gaming Expansion
- Cosmopolitan Las Vegas
- Credit Suisse
- Crystal Palace Cable Beach Resort
- Cyprus Phassouri Ltd.
- Delaware North Companies
- Dentons
- Diamond Game
- Dickinson Wright
- DLJ Merchant Banking
- Donnelly & Clark
- Duane Morris
- Elliott Management
- Empire City Casino at Yonkers Raceway
- Empire Resorts
- Encompass Develop, Design & Construct
- Esquire Casinos
- Eton Park Capital Management
- Featherstonhaugh, Wiley & Clyne, LLP
- Financial Research Associates
- Fireman Capital Partners
- Gateway Casinos and Entertainment Ltd.
- Gensler Architects
- Genting
- Good for Oregon Committee
- Grand Baltic Resorts
- Great Canadian Gaming Corp.
- Greenberg Traurig, PA

**Attachment A**  
**SPECTRUM GAMING GROUP**  
**CLIENT LIST**



**Private Sector**

- Greenberg Traurig, PA
- Guam Hotel & Restaurant Association
- Harbor Management
- Hard Rock Hotel Las Vegas
- Hard Rock International
- Herzog Fox & Neeman
- Hialeah Park
- Hilton Aruba Caribbean Resort & Casino
- Hooters Las Vegas
- House of Blues Entertainment
- Icahn Associates
- Illinois Casino Gaming Association
- Illinois Jobs and Revenue Alliance
- Indiana Live! Casino
- IGT
- Intralot
- Ivory Gaming
- Jack Entertainment
- Jefferies & Co.
- Jones Lang LaSalle
- Jones Walker
- JSM Indochina
- Kleinberg Kaplan Wolf & Cohen
- KTZ Express
- Landry's
- LapuLapu Leisure
- Las Vegas Sands
- Long Thanh Golf Investment and Trading
- LCR Capital
- Lumiere Place
- Marnell Companies
- Marriott Aruba Casino
- Mariscal Weeks McIntyre & Friedlander P.A.
- Matzel & Associates
- Meuchadim of Texas
- Melco Resorts & Entertainment
- Melchers Rechtsanwaelte
- MML Capital Partners
- Morgan Stanley
- Mount Airy Casino Resort
- Newport Entertainment
- New Frontier
- New York Gaming Association
- Occidental Hotel Corporation
- Orix Corp.
- Parx Casino
- Peninsula Pacific
- Penn National Gaming
- Pinnacle Entertainment
- Puerto Rico Thoroughbred Racing Association
- Rath, Young & Pignatelli, PC
- Regulatory Management Counselors
- Revel Entertainment
- Remington & Vernick Engineers
- Ritz Carlton Casino Resort, San Juan, PR
- Rush Street Gaming
- Sampoerna Group
- Sandell Asset Management
- Saratoga Gaming & Racing
- Save GA Hope
- Sazka Group
- Scientific Games

**Attachment A**  
**SPECTRUM GAMING GROUP**  
**CLIENT LIST**



**Private Sector**

- Scopia Capital Management
- Seaboard Development
- Shinan World Resort
- Shuffle Master
- Siganos Management
- Silver Heritage Group
- Silvermark
- Sokha Hotels
- Sonco Gaming Inc.
- Sportech
- SRG Investments
- Syrea Family LP
- Starwood Capital Group
- Stavros Moyal y Asociados
- Stone Creek Resorts
- Strategic Value Partners
- Sunrise Sports & Entertainment
- Takenaka Construction Corp.
- The Related Cos.
- Tinian Dynasty Hotel & Casino
- Tioga Downs
- TM Capital Advisors
- Tower Entertainment
- Tower Investments
- TransPort Industrial
- Travellers International Hotel Group
- Triple Five Worldwide Group
- Tropicana Entertainment
- Trump Entertainment Resorts
- Twin River Management Group
- Universal Pacific Limited
- Valley Forge Casino
- Volterra Fietta
- Virgin Group
- Western Development Corporation
- Witkoff Group
- Wynn Resorts

**Attachment A**  
**SPECTRUM GAMING GROUP**  
**CLIENT LIST**



**Native American**

- Agua Caliente
- Cherokee Nation
- Gila River Indian Community
- Little River Band of Ottawa Indians
- Mashantucket Pequot Gaming Commission
- Mashpee Wampanoag Tribe
- National Indian Gaming Association
- Navajo Gaming Enterprises
- Nooksack Indian Tribe
- Oneida Indian Nation
- Pechanga Development Corp.
- Pokagon Band of Potawatomi Indians
- Port Madison Enterprises (Suquamish Tribe)
- Pueblo of Ohkay Owingeh
- San Carlos Apache Tribal Gaming Enterprise
- Sault Ste. Marie Tribe of Chippewa Indians
- Seminole Tribe of Florida
- Seneca Gaming Corporation
- Seneca Nation of Indians
- Tohono O’odham Nation

**Attachment B**  
**LOTTERY SPORTS WAGERING & GAMING SYSTEM**  
**COMPETITIVE RFP PROCESS OVERVIEW & TIMELINE**

**Phase 1— Research and RFP Drafting (2 MONTHS)**

- Obtain and review other jurisdictions' RFPs
- Obtain and review other relevant information pertaining to gaming system procurements
- Determine final business model for the RFP (functions to be included in the RFP)
- Draft Statement of Work
- Draft Special Contract Terms pertaining to gaming system contracts (Bonding, Insurance, IP, Background Checks, Liquidated Damages, Warranties, etc.)
- Review and Approvals of Final RFP

**Phase 2—Procurement Phase (15 MONTHS)**

- Issue RFP
- Pre-Proposal Conference Meeting with Vendors
- Respond to Vendor Written Questions, Providing Written Responses
- Allow time for vendors to obtain CBE subcontractors
- Proposals Evaluation Phase
- Compliance Review
- Draft contract documents and Council Package

**Phase 3—Council Review and Approval and Contract Execution (2 MONTHS)**

- Council 45 Days (excluding Saturdays, Sundays and Holidays) to adopt a resolution to approve the multi-year contract
- Execute final contract documents

**Phase 4—System Implementation, Conversion, and Training (8 MONTHS)**

- Vendor ramp up for conversion process
- Specifications development
- Software Development
- Software Testing
- Hardware Testing
- Lottery staff training
- Retailer Training (400+ retailers)

**MINIMUM 27 MONTHS TO NEW GAMING SYSTEM OPERATIONAL**  
*(without protest/CAB deliberation process)*

**Award Protest and Contract Appeals Board Deliberations (0 to 12 MONTHS)**

- Based on previous experience in the District and in other states that have procured gaming system contracts, the likelihood of protest on a contract award is high.

Attachment C

**Sports Wagering Procurement Practices Reform Exemption Act of 2019  
Fiscal Impact of Delayed Start of Lottery Sports Wagering**

	FY 2019	FY 2020	FY 2021	FY 2022	Financial Plan Total
<b>B22-944 as amended (Sports Wagering Lottery Amendment Act of 2018)</b>					
Private operated (Class A and Class B)	1,942,000	1,725,000	1,896,000	2,085,000	7,648,000
Compliance & Training (Class A and Class B)	(773,000)	(1,004,000)	(1,020,000)	(1,035,000)	(3,832,000)
Lottery operated mobile/retail	6,427,000	25,308,000	27,453,000	28,692,000	87,879,000
<b>TOTAL</b>	<b>7,596,000</b>	<b>26,029,000</b>	<b>28,329,000</b>	<b>29,741,000</b>	<b>91,695,000</b>
<b>Delay until 10/2021 (27 months)</b>					
Private operated (Class A and Class B)	1,942,000	1,725,000	1,896,000	2,085,000	7,648,000
Compliance & Training (Class A and Class B)	(773,000)	(1,004,000)	(1,020,000)	(1,035,000)	(3,832,000)
Lottery operated mobile/retail	-	-	(150,000)	27,161,000	27,011,000
<b>TOTAL</b>	<b>1,169,000</b>	<b>721,000</b>	<b>726,000</b>	<b>28,211,000</b>	<b>30,827,000</b>
<b>DIFFERENCE</b>	<b>(6,427,000)</b>	<b>(25,308,000)</b>	<b>(27,603,000)</b>	<b>(1,530,000)</b>	<b>(60,868,000)</b>