

**BUDGET OVERSIGHT HEARING ON
FISCAL YEAR 2021 PROPOSED BUDGET
AND FINANCIAL PLAN
FISCAL YEAR 2021 BUDGET SUPPORT ACT OF 2020**

**Before the
Committee on Business and Economic Development
Council of the District of Columbia**

THE HONORABLE KENYAN R. MCDUFFIE, CHAIRMAN

**JUNE 3, 2020 AT 9:00 A.M.
JOHN A. WILSON BUILDING - VIRTUAL MEETING PLATFORM**



**Testimony of
Beth Bresnahan, Executive Director
Office of Lottery and Gaming**

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

Good Morning, Chairman McDuffie and members of the Committee on Business and Economic Development. I am Beth Bresnahan, the Executive Director of the Office of Lottery and Gaming (“Lottery”). Thank you for this opportunity to present testimony on the Lottery’s budget and fiscal planning for Fiscal Year 2021.

Since the Lottery’s Public Oversight Hearing before this committee in early March 2020, the coronavirus pandemic has made an immense impact on how we live, work, and conduct business in the District of Columbia.

The pandemic has presented physical, operational and some personal challenges upon the Lottery and upon our small business retailer partners across the city. We have worked these past few months to keep our core functions and services safely operating, while continuing to carry out our mission of generating revenue for the District’s General Fund.

Since March 16th, the majority of Lottery’s 70-person staff has been working remotely. Almost all staff members had previously been assigned a laptop with VPN capabilities and received agencywide training on Microsoft Teams, so we were able to quickly and securely pivot most administrative functions to remote and/or virtual operations with little impact on service delivery and performance. However, there are certain core functions that simply cannot be conducted off site, including the processing of prize claims, conducting game drawings, IT operations, and distributing tickets to retailers. To ensure the safety and well-being of staff members reporting to perform these core functions throughout the pandemic, we implemented rotating skeleton schedules to limit the number of people on site and working within close proximity. We also modified some operational areas to help limit risk of spreading coronavirus, such as closing the claims center to walk-in customers, encouraging players to mail in prize claims, and processing high tier wins by appointment. In adherence with the District’s stay-at-home order,

we halted our sales representatives' visits to retail locations, primarily handling account management through regular phone calls to store owners and managers; and, suspended all public events, promotions and scheduled sales stops for our Lucky Lottery Mobile.

Per the Re-Open DC Advisory Group's Phase 1 recommendations for government, we are expanding our in-person business operations where necessary, but are doing so with an abundance of caution that balances the safety and personal needs of Lottery staff members while supporting the organization's business needs. The majority of Lottery staff continues to telework during Phase 1 re-opening. Operations and functions that cannot be performed 100% remotely are phasing back into the office with rotating skeleton crews as well as back into the field through scheduled appointment visits.

With more people staying home, there has been decreased foot traffic at our licensed retail locations and as a result, Lottery sales have been impacted. As of April 30th, Fiscal Year 2020 Lottery sales total \$116.8 million, as compared to \$126.3 million in Fiscal Year 2019. This \$9.5 million, or 7.5%, year-over-year decrease is largely comprised of a \$3.1 million, or 9.9%, decline in Instant Ticket sales; and, 44.8% and 58.3% respective declines in the multi-state jackpot games Powerball and Mega Millions that combined for a \$7 million sales drop.

While we have experienced a sales uptick over the past few weeks, we anticipate the impact of the pandemic on the Lottery will continue throughout the summer and into the fall. Many of the initiatives we had planned for the 3rd and 4th quarter of Fiscal Year 2020, and for the 1st quarter of Fiscal Year 2021, were pushed to later implementation dates due to logistical and operational challenges.

As a result of pandemic-related operational impacts, the Lottery's projected transfer for the remainder of Fiscal Year 2020 and for 2021 were adjusted downward in the District of Columbia's

revised revenue estimates released on April 24, 2020. The Lottery's projected transfer for Fiscal Year 2020 was decreased from \$56.2 million to \$34.1 million, which includes a \$12.5 million decrease in revenue generated from traditional lottery sales and removing all \$9.6 million projected from sports wagering this fiscal year. For Fiscal Year 2021, the Lottery's projected transfer, which includes profit from both traditional games and sports wagering, was decreased from \$69.7 million to \$51.3 million. With little-to-no sports available to wager on, and no clear indication that there will be a steady stream of live games in the weeks or months ahead, the Office of Revenue Analysis (ORA) removed the \$1.4 million in tax revenue projected to be collected in Fiscal Year 2020 from privately-operated sportsbooks soon-to-be licensed and regulated by the Lottery, and decreased the projected Fiscal Year 2021 tax collection from \$1.9 million to \$942,000. The Lottery and ORA are closely monitoring developments on the reopening of sports globally and projections will be revised as more information becomes available.

As of April 30th, the Lottery has transferred \$22.85 million, or 67% of the Fiscal Year 2020 goal, to the General Fund. With four months remaining in the current fiscal year, the Lottery is on track to meet the revised transfer goal; however, when factoring in current affairs, it could be extremely challenging. We are optimistic that Fiscal Year 2021's goal of \$51.3 million can be achieved. Our team is working to craft and implement a strategic plan that grows sales and maximizes profit, but also remain keenly aware of the challenges we encounter in this rapidly evolving and uncertain landscape.

Decreased foot traffic in stores has led to a significant slowdown in Instant Ticket orders from our licensed retailers during the past three months. This decrease in demand prompted us to amend our Instant Ticket monthly release and marketing plan for April through July. While we moved forward with the release of our April games – \$2 “\$100 Win,” \$5 “Radio One,” and \$10

“\$1,000 Loaded,” which were ordered and printed in late February, we did so with a smaller-than-typical distribution of ticket packs to stores, no in-store point of sale advertising, and a very limited/scaled-back paid advertising campaign. For the month of May, we planned to release three new games, but refrained from doing so because with fewer customers, retailers simply could not take on the additional inventory. We printed two of the three tickets intended for May – a \$1 and \$2 game, and are instead releasing them in June. Additionally, we modified plans for July from a four-ticket release to just three games – a \$1, \$5 and \$10 ticket. We will monitor orders and sales in the coming weeks to determine the best strategy for August and September releases. It is our hope that the Lottery can revert to a traditional release schedule in October to kick off Fiscal Year 2021.

Slow sales nationwide also forced rule changes in late March/early April for both *Powerball* and *Mega Millions* that reduced the starting jackpots and the amount the jackpot grows between each drawing in the multi-state games. These changes were implemented to ensure the jackpots could be properly funded. Previously, both games guaranteed a starting jackpot amount of \$40 million, and the minimum increase between each drawing was \$20 million for *Powerball* and \$5 million for *Mega Millions*, but these increases, which were based on sales trends and projections, often exceeded the minimum guarantee. Starting jackpots, and the rate at which the jackpots increase, are now established based on actual game sales and interest rates, with no fixed minimum amount. The amounts are determined and announced prior to each drawing. Without guaranteed minimum jackpots and guaranteed increases between draws, jackpots for the multi-state games will grow at a slower rate and may not generate as much excitement with players in pursuit of billion-dollar prizes. Both the *Powerball* and *Mega Millions* game groups intend for these rule changes to be temporary; however, as I noted earlier in my testimony, *Powerball* and

Mega Millions sales in the District have dropped 44.8% and 58.3% respectively, as compared to Fiscal Year 2019 and sales nationwide have seen similar steep declines, so it is likely some permanent adjustments to the games' structures will need to be implemented to ensure their long-term viability as revenue generators for U.S. lotteries.

Perhaps the most visible impact that the pandemic has had on Lottery operations is on the launch of sports wagering in the District. We have been working with our technology vendor to develop a digital sports wagering platform that supports wagering citywide through a website and mobile application, as well as through a network of licensed retailers. As we discussed at the Lottery's Public Oversight Hearing in early March 2020, we planned to debut the platform at the end of March, but this plan was impacted by the pandemic's global shutdown of nearly all sports. We took the month of April and into May to rethink our go-to market strategy in a world with virtually no sports. We also undertook additional internal and third-party testing to further ensure the safety, security, and usability of the platform. We also refined the platform to further enhance the player experience.

While we recognize there are still only a limited number of events on which to wager, we debuted the sports wagering platform, which we branded as *GambetDC*, with a "soft launch" of the website on Thursday, May 28, 2020. Introducing *GambetDC* with a soft launch provides us with an opportunity to roll out the wagering website and gather feedback from real players in the District. There is no significant paid advertising campaign or push to promote *GambetDC's* availability during its introductory phase; however, the website is available to the general public. We plan to deploy the iOS and Android apps in the coming weeks after incorporating more feedback from the inaugural players as well as refining geolocation buffer zones and corresponding messaging based on increased user data provided by our third-party technology provider. A full-

scale advertising and marketing campaign promoting *GambetDC* will launch as soon as there is a more robust schedule of major sporting events to best ensure a return on investment of advertising dollars.

In less than a week, and without paid advertising and little promotion, 640 new *GambetDC* accounts were created, with more than 150 deposits to accounts. A total of \$11,295 has been wagered on sporting events that included Soccer, Mixed Martial Arts, Darts and Football futures. Our team is looking forward to sports returning and we are ready to start promoting and creating excitement around our new offering when that time comes.

Roll out of the retail network component of *GambetDC*, which was initially slated for this fall, has been pushed to summer of 2021. The pandemic has prevented field technicians from visiting store locations to undertake fundamental equipment upgrades necessary to support retail sports wagering, as well as created issues receiving some of the necessary equipment from overseas manufacturers. While we continue to work to advance this important component of the our sports wagering offering, we have been working with our technology vendor on the development of an iLottery platform that will help replace some of the revenue lost from the lack of sporting events and the slowdown of sales at store locations.

The iLottery platform, which we initially planned to go-live with in Summer of 2021 and now aim to launch in October 2020, will feature our existing portfolio of draw games, as well as electronic instant games (digital versions of Instant Tickets) sold through a website and mobile app. Much like with sports wagering, iLottery sales will be restricted to computers and mobile devices located within the District at the time of play. Based on trends and performance in other U.S. jurisdictions, we project that iLottery sales will equate to approximately 4% to 5% of

traditional lottery sales annually, or conservatively between \$2.5 million and \$3 million in transfer in the platform's first year of operation.

The Lottery does not plan to introduce new traditional draw games in Fiscal Year 2021, but we will be debuting a revamped version of our horse racing themed monitor game, *Race2Riches*, in 2021. Originally planned for late summer 2020, logistical challenges created by the pandemic shifted the game's relaunch to April of 2021 to be undertaken in conjunction with the installation of new lottery terminals at all licensed retailer locations. The computer animated game will offer advanced 3-dimensional graphics that look like an actual horse race which will provide an exciting gaming experience to players watching on monitors at stores or on the iLottery platform. We anticipate that the greatly enhanced graphics and improved payouts will make the game more appealing to retailers and help to increase the number of establishments that display this game in their locations and to recruit new licensees.

Our Regulation and Oversight division has been working diligently to license applicants for the private-operated sports wagering program. A total of seven applications have been submitted in the Operator and Supplier categories, five of which are under review, one that is awaiting payment, and one that is currently inactive because the applicant has not responded to inquiries. We have also received three Occupational license applications. Active discussions are underway with potential applicants in the Class A, Class B, Management Service Provider, and Supplier category. In total, nine applications have been started, but not submitted.

The Lottery is actively working with the Department of Small and Local Business Development (DSLBD) on implementing a capacity building plan to provide training and matchmaking opportunities, as well as participation in various events and programs, to inform and educate Small Business Enterprises (SBEs) and SBE-eligible firms on how to enter the District's

emerging sports wagering industry. We will be partnering with the University of Las Vegas' International Center for Gaming Regulation on a series of 1-hour-long seminars we are calling *"Bet on Small Business Power Hours"*. The series will consist of four online presentations/instructional trainings from recognized sports wagering experts that will include their journey in entering the industry. The seminars are expected to commence later this month and are scheduled through the end of September.

Under the introduced version of the Fiscal Year 2021 Budget Support Act of 2020 (BSA), the Alcoholic Beverage Regulation Administration (ABRA) will transfer the regulation of Games of Skill to the Lottery, under the Regulation and Oversight division. We are monitoring this provision of the BSA to see how it progresses through the legislative process and we are prepared to work with ABRA on a seamless transition of the regulation of Games of Skill to the Lottery.

In addition to operating and regulating lottery and sports wagering, the Lottery also oversees charitable gaming licensing in the District. We assist local charities and non-profits in raising funds to support their important causes and programs by licensing raffles, Bingo and Monte Carlo nights. And now more than ever, we are looking forward to doing what we can to continue to support these organization's important missions, programs and causes.

Fiscal Year 2021 will be a year of adaptation for the Lottery as we determine what the "new normal" will be in a post-pandemic, brick-and-mortar retail environment. We will not only be working toward continued growth in our traditional game portfolio through the development of entertaining products and engaging player promotions, but also working to develop and grow our new gaming categories – sports wagering and iLottery – and through our new, digitized sales channels. We will continue to enhance the Lottery's brand and product innovation to transform

how we conduct business, and to increase our overall revenue generation potential in a challenging year ahead and beyond.

Thank you for this opportunity to testify. I am happy to answer any questions the Committee may have.