

**PUBLIC OVERSIGHT HEARING ON
THE FISCAL YEAR 2018 AND 2019 PERFORMANCE OVERSIGHT**

**Before the
Committee on Finance and Revenue
Council of the District of Columbia**

The Honorable Jack Evans, Chairman

**February 25, 2019, 10:00 a.m.
Hearing Room 412, John A. Wilson Building**



**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 Evans and members of the Committee on Finance and Revenue. I am Beth Bresnahan, Executive Director of the Office of Lottery and Gaming (“the Lottery”). I am honored to again have this opportunity to present testimony on the Lottery’s performance for Fiscal Years 2018 and 2019. Joining me today are my colleagues Craig Lindsey, Agency Fiscal Officer, and Ridgely Bennett, the Lottery’s Chief Counsel.

The Lottery was founded by a voter referendum in 1982. Our mission is “to provide revenue-generating entertainment through the sale of innovative lottery products and promotions that directly benefit residents and contribute to the economic vitality of the District of Columbia.” Since launching our first game in 1982, the Lottery has generated more than \$7.1 billion in ticket sales and transferred more than \$2.1 billion in net profit to the District’s General Fund. In those 37 years, Lottery players have won more than \$3.7 billion in prizes and our network of licensed retailers has earned approximately \$420 million in commissions from the sale of lottery games in their store locations. We have also assisted local nonprofit organizations in raising approximately \$132 million in support of their important causes by licensing Charitable Gaming events and fundraising activities.

The Lottery’s transfer to the General Fund for Fiscal Year 2018 totaled \$49.5 million. This represents a \$3.9 million or 8.6% increase in transfer over Fiscal Year 2017. This increase in transfer is largely attributed to lower prize expenses in Fiscal Year 2018. While the transfer increased, overall Lottery sales experienced an \$8.5 million or 3.86% year-over-year decrease. Fiscal Year 2018 sales totaled \$210.2 million as compared to Fiscal Year 2017’s \$218.7 million. Nearly all games experienced a year-over-year sales decrease in Fiscal Year 2018, with the exceptions of the multi-state *Mega Millions* game and the portfolio of Fast Play terminal games.

Fiscal Year 2019 Lottery sales are looking more positive. As of January 31, 2019, sales total \$72.3 million, compared to \$69 million through the same period last year – a 4.8% increase. The Lottery’s Fiscal Year 2019 year-to-date transfer (also as of January 31, 2019) is \$18 million, which is \$400,000 or 2.2% lower through the same period in Fiscal Year 2018. The decrease in transfer is the result of a higher prize payout, particularly in October and November, as compared to last year.

Fiscal Year 2019 terminal game sales are on the rise. Sales to-date total \$55.1 million, an increase of \$1.7 million or 3.2% higher than at this time last year. The boost in terminal sales is a much-needed correction to the steady decline experienced in previous years. This turnaround is largely thanks to a record-breaking \$1.5 billion *Mega Millions* jackpot drawn on October 23, 2018 and a robust \$687 million *Powerball* jackpot drawn just one day later. The two games introduced in Fiscal Year 2018 – *DC-2* and *The Lucky One* – are also helping to add incremental new revenue to the terminal game portfolio. Sales for the family of numbers games continue to trend downward which is consistent with sales across the industry in this game category during the past several years. However, the Lottery team continues to develop and execute player promotions and campaigns to keep these mainstay games fresh in the minds of lottery-playing customers while also focusing on products with greater growth potential.

Speaking of keeping things fresh, another one of our mainstay games – *Keno* – will be revamped this spring with crisp new visuals celebrating the District’s famed cherry blossoms. Our plan is to launch seasonal scenes that alternate with the traditional *Keno* draw visuals to enhance the experience of watching the monitor game’s draws. Creative thinking around introducing new products to market paired with enhancements and promotions that support existing games helps to

stimulate excitement amongst our player base and to extend the reach of our game portfolio to potential new players.

I am pleased to report that instant “scratcher” ticket sales are also on the rise in Fiscal Year 2019. Sales as of January 31, 2019 total \$17.2 million, an increase of \$1.7 million or an 11% increase over the same period last year. Through innovative practices, we made strides during Fiscal Year 2018 in reshaping the instant ticket portfolio which helped put the Lottery on a path for growth in 2019. *DC Love*, a \$5 ticket featuring a series of artful scenes specific to the District of Columbia, yielded \$2 million in sales making it the second-highest-performing game at the \$5 price point in the history of our Lottery. We also introduced the *\$10 Million Dollar Cash Extravaganza* ticket in the final weeks of Fiscal Year 2018 and it continues to sell strongly into 2019. This ticket is the agency’s first game at the \$30 price point and features the best odds (1 in 150,000) in the DMV region to win \$1 million. In early October 2018, the Lottery “Capitalized” on the winning fever that swept the city last spring by launching the *Washington Capitals 2018 Stanley Cup Champions* instant ticket. In addition to its exciting instant “scratch-and-win” cash prizes, the \$5 ticket bearing the team’s logo and an image of the storied Stanley Cup will offer one lucky player a one-of-a-kind opportunity to go onto the ice in between periods at a Caps home game and win up to \$50,000. There is no other lottery game in the region like it. These and other instant tickets to be released this fiscal year will serve to reinvigorate our ticket portfolio. They signal to players that we are taking a unique approach to game offerings with themes and prizes that are available only in D.C.

Competing for gaming dollars is becoming increasingly more challenging as the region’s gaming market continues to grow. Virginia Lottery sales exceeded \$2.1 billion in 2018. And in Maryland, lottery sales also eclipsed the \$2 billion mark while the state’s casino gross gaming

revenue soared to a record high of nearly \$1.75 billion – an 8.2% year-over-year increase in 2018. The District’s population and its retail distribution network are much smaller than those of our neighboring gaming jurisdictions, making it next to impossible to fund prizes that can compare head-to-head with their offerings. Understanding this, our Lottery must continue to be forward-thinking in the approach to differentiate ourselves in this highly-competitive and rapidly-expanding regional gaming market by rolling-out products and promotions that are unique to the District and are desirable to our players.

The legalization of sports wagering in the District provides a differentiator from the gaming offered in our neighboring states. Launching sports wagering before Virginia and Maryland enter the market will assist in providing the District with a competitive edge in establishing a player base and in capturing potential new gaming revenue. As I have previously shared with the Council, jurisdictions first to market are likely to capture their local market of potential bettors and build brand affinity and loyalty with these audiences. This is particularly important for the D.C. market if we want to not only capture interest with our resident population, but also with daytime commuters and visitors to the District.

Since the Council’s December 18, 2018 passage of the “Sports Wagering Lottery Amendment Act of 2018,” the Lottery has assembled a project implementation team working to develop the comprehensive regulatory framework necessary to carry out the licensing and oversight of sports wagering in the District. The team is also mapping out the implementation of Lottery-operated sports wagering offerings. In the coming weeks, we will engage a consultant with experience in expanded gaming markets to provide further guidance and refine the work that is already underway. This includes establishing definitive parameters and processes for licensing of private sports wagering operators, management companies, suppliers and employees; establishing

accounting, reporting and auditing requirements; and, developing protocols, practices and procedures addressing anti-money laundering controls and fraud protection, as well as responsible-gaming procedures to minimize problem gambling and prevent underage gambling at licensed locations.

We are diligently working to create a regulatory arm within the Lottery that fosters public confidence and trust in the integrity of sports wagering operations in the District. As part of the process, we are identifying the staffing needs, developing position descriptions and will recruit staff to support the Lottery's new regulatory responsibilities, as well as its future operation of sports wagering. This includes creating a department dedicated to supporting the Lottery's new regulatory role. Based on the current assessment, this department of sports wagering regulatory oversight will need approximately 10-to-12 full-time staff. Positions and functions in this soon-to-be created department will include licensing, audit, compliance and enforcement. Our goal is to begin hiring in April.

The Lottery formulated its Fiscal Year 2019 and Fiscal Year 2020 budgets prior to the U.S. Supreme Court's decision to overturn the federal ban on sports wagering and prior to its legalization in the District. As such, the cost of implementation was not contemplated during the budget process. While we are working to finalize a budget, our initial estimate to successfully implement the regulatory responsibilities is approximately \$2.8 million.

The Lottery anticipates putting forth draft sports wagering regulations for public comment in May 2019 and adopting regulations in July 2019. The licensing process will begin shortly thereafter. The anticipated review and approval process for licenses is approximately 30 to 45 days and anticipates that private operator sports wagering will begin in September 2019.

Emergency legislation to exempt the initial procurement for a combined sports wagering, lottery gaming system and related services contract was passed by Council on February 19, 2019. If the Mayor signs the bill into law, the Lottery can immediately engage in contract negotiations with our incumbent technology vendor. We estimate contract negotiations will take up to 60 business days. The final contract will be brought to Council for review. Should Council approve the final contract, we estimate system development, testing and implementation will take approximately six months. This timeline brings the estimated launch date of the Lottery's mobile sports wagering and retail network to January 2020. In the coming weeks, as we begin contract negotiations with the vendor and make progress in shaping the Lottery's sports wagering offerings, we will identify specific needs to support operations. We expect to recruit for skilled marketing positions in the areas of strategic product development, customer acquisition and retention, and advertising/promotional development. The timeline for these hires would be the close of this fiscal year into early Fiscal Year 2020.

The implementation team is working against an aggressive timeline and is committed to putting forth a transparent, and participatory process for implementing the new gaming activities authorized in the "Sports Wagering Lottery Amendment Act of 2018." I will continue to share updates as we progress with implementation.

At last year's oversight hearing, I shared my vision for a "back to basics" approach to assist the Lottery's recovery from lost market presence, lagging sales, and encroaching threats to our player base from neighboring jurisdictions. An important component of making this approach and the initiatives behind it successful is the partnership with our retail partners. They are the Lottery's first line of customer interaction and are an invaluable component of our business model. In Fiscal Year 2018 our retail partners earned \$13.7 million in commissions from the sale of lottery games

in their store locations. However, due to changes in the market, and how players access entertainment options, we have seen a steady decrease in retailers over the past several years. We currently have 401 active retailers operating throughout the District, compared to 497 in Fiscal Year 2014. The Lottery's Licensing and Sales teams are working to expand retail locations by diversifying our base to recruit more grocery stores, social settings and restaurants. Year-to-date, we have recruited nine new retailers with the goal of on-boarding a total of 40. It is a small step, nevertheless it is a step in the right direction. This spring we plan to expand upon earlier endeavors to engage our retailer community by undertaking a formal survey to track the general state of our partners' in-store lottery business and how it compared to previous years; assess retailers' attitudes towards the Lottery; rate the Lottery's performance on interactions with retailers; identify major causes of concern for retailers; and help us better understand their business needs to help grow their lottery sales.

The changing retail market and shifts in purchasing patterns from brick and mortar to digital platforms also necessitate that the Lottery continues to be innovative in its approach to reach consumers using the tools currently available to us. We can no longer rely solely on players coming to retail locations, we must meet them where the action is — whether that is a business district during a work day, outside of a local sporting event, or near a busy Metro station. Our events team, using tools such as the Lucky Lottery Mobile, take the fun and excitement of Lottery games to the District's business corridors and community festivals. The Lucky Lottery Mobile, which conducted 50 mid-day promotional events last fiscal year, has been so popular that we will be deploying a second truck in the coming weeks. The advent of the Lottery's presence at seasonal shopping events like our first popup shop at the 2018 Downtown Holiday Market also assists our

efforts in reaching customers beyond the store counter. These encounters are examples of ways the Lottery is engaging new players and gaining greater visibility in the community.

We are focused on our mission of maximizing sales and revenue to the District; however, we want to ensure that those who are playing lottery in the District are playing responsibly, within their means and lawfully. The Lottery takes the issues of problem and underage gambling very seriously. As a matter of law, players must be 18 years of age to purchase Lottery games and our retailers work to enforce this law through ID age verification checks. As a standard, with information on how to reach the National Council on Problem Gambling permanently located on our website, the Lottery routinely reminds players to play responsibly and to be aware that help is available should they need it. Recognizing the importance of this issue, the Lottery is increasing our responsible gaming efforts. Earlier this month, we were accepted to participate in the Responsible Gambling Verification Program jointly sponsored by the North American Association of State and Provincial Lotteries and the National Council on Problem Gambling. Certification through this comprehensive program will ensure that our staff, retailers and players have the tools and resources needed to recognize, address, and ultimately avoid the dangers of problem and underage gambling.

We are pleased with our gains in efficiencies and overall agency performance and will strive for continuous improvement in all areas of operation as we prepare to take the Lottery to the next level of winning with our new regulatory responsibilities and new gaming category.

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