

**PUBLIC OVERSIGHT HEARING ON
THE FISCAL YEAR 2019 AND 2020 PERFORMANCE OVERSIGHT**

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

The Honorable Kenyan R. McDuffie, Chairman

**March 4, 2020, 10:00 a.m.
Hearing Room 123, 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 McDuffie and members of the Committee on Business and Economic Development. I am Beth Bresnahan, Executive Director of the Office of Lottery and Gaming (“the Lottery”). I am honored to have this opportunity to present testimony on the Lottery’s performance for Fiscal Years 2019 and 2020. Joining me today are my colleagues Craig Lindsey, Agency Fiscal Officer; Ridgely Bennett, Chief Counsel; and, Peter Alvarado, Director of Regulation and Oversight – a division of the Lottery that was created last year to support implementation of the “Sports Wagering Lottery Amendment Act of 2018.”

The Lottery’s 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.” And, “to efficiently and effectively regulate sports wagering and charitable gaming in the District.” Since launching our first game in 1982, the Lottery has generated more than \$7.3 billion dollars in ticket sales and transferred more than \$2.18 billion dollars in net profit to the District’s General Fund. In the last 38 years, Lottery players have won more than \$3.9 billion dollars in prizes and our network of licensed retailers has earned approximately \$434 million dollars in commissions from the sale of lottery games in their store locations. We have also assisted local nonprofit organizations in raising more than \$134 million dollars in support of their important causes by licensing Charitable Gaming events and fundraising activities.

In Fiscal Year 2019, Lottery sales totaled \$213 million dollars, as compared to \$210.2 million dollars in Fiscal Year 2018. This \$2.8 million, or 1.33%, year-over-year increase, is attributed to strong sales performances in the multi-state jackpot game category and in the Instant Ticket portfolio.

The multi-state jackpot games *Mega Millions* and *Powerball* experienced robust year-over-year gains with 34% and 8% increases respectively thanks to jaw-dropping jackpots offered in each game to start the fiscal year. In October 2019, *Mega Millions*' jackpot soared to \$1.6 billion dollars, while *Powerball* concurrently competed with a \$750 million-dollar top prize. Instant Ticket sales increased in Fiscal Year 2019 by \$2.8 million, or 5.7%, over Fiscal Year 2018. Growth in the Instant Ticket portfolio can be attributed to an increase in ticket sales at the \$5 dollar price point and the introduction in September 2018 of the District's first \$30 dollar game, *\$10 Million Cash Extravaganza*. Sales within the new \$30 dollar price point in Fiscal Year 2019 exceeded \$6.4 million dollars.

As players gravitate toward higher price-point offerings, like \$30 dollar tickets which offer larger top prizes and more favorable odds to win, ticket sales increase, but do so at the expense of paying prizes. This situation is reflected in the Lottery's Fiscal Year 2019 prize payout which was \$123.4 million dollars, or 57.91% of sales, as compared to \$117.4 million dollars, or 55.82% of sales for the previous year. The 5.12% year-over-year increase in prize expenses impacted the Lottery's bottom line. Transfer to the General Fund for Fiscal Year 2019, was \$45 million dollars – a \$4.4 million dollar, or 8.9%, decline in transfer from Fiscal Year 2018.

An escalated prize payout continues to impact Lottery transfer into Fiscal Year 2020. As of January 31st, the Lottery's transfer was \$15.5 million dollars – \$2.5 million dollars, or 13.8%, lower through the same period in Fiscal Year 2019. Prize payout through January 31, 2020 is 56.71%, as compared to 55.92% through the same period in Fiscal Year 2019. Also, while not the main driver of the decline in transfer, the Lottery's administrative costs, particularly those associated with assuming a regulatory role in sports wagering and starting a Regulation and Oversight division, have increased.

As of January 31, 2020, overall Lottery sales totaled \$68.9 million dollars, compared to \$72.3 million dollars through the same period last year. This \$3.4 million dollar, or 4.7%, sales decrease is not indicative of the overall performance of our entire game portfolio, but instead is a direct result of the multi-state *Mega Millions* and *Powerball* games not producing the same level of record-setting jackpots in Fiscal Year 2020 as they each did in Fiscal Year 2019. This lack of comparable year-over-year jackpots has created a \$4.85 million dollar sales drop between the two games and is not only impacting game sales in the District, but across all U.S. lotteries that offer these games.

As I shared earlier, the *Mega Millions* jackpot swelled to a record \$1.6 billion dollars in October 2018. *Mega Millions* also offered jackpots of \$425 million dollars in January 2019 and \$530 million dollars in June 2019. Similarly, *Powerball*'s jackpot grew to \$687 million dollars in October 2018 and \$768 million dollars in March 2019. To date in Fiscal Year 2020, the highest jackpot in the *Mega Millions* and *Powerball* games have respectively been \$372 million dollars in December 2019 and \$397 million dollars in January 2020. Through January 31, 2020, Fiscal Year 2020 *Mega Millions* sales were \$1.93 million dollars, a 64.5% year-over-year decline through the same period in Fiscal Year 2019. *Powerball* sales as of January 31, 2020 were \$2.46 million dollars, or 34.8%, lower than the same period in Fiscal Year 2019. To help combat this phenomenon known in the industry as "jackpot fatigue," lottery directors from across the country are planning to meet later this month to discuss the current state of *Powerball* and explore potential changes aimed at keeping the game fresh and exciting to players while continuing to be a consistent revenue generator for the beneficiaries in our respective jurisdictions.

On a more positive note, sales for the Lottery's family of numbers games has seen an uptick in sales in Fiscal Year 2020. As of January 31, 2020, the four games (*DC-2*, *DC-3*, *DC-4* and *DC-*

5) have combined for \$38.4 million dollars in ticket sales compared to \$37 million dollars through the same time period in Fiscal Year 2019. This 3.7% year-over-year increase is a welcome improvement to our numbers games, which had been steadily trending downward in previous years. Our team has developed and executed player promotions to keep generating excitement around these mainstay games. Our portfolio of *Fast Play* and *Tap-N-Play* games have also experienced sales increases in Fiscal Year 2020. As of January 31, 2020, *Fast Play* sales totaled \$2.5 million dollars, a \$40,000-dollar increase over Fiscal Year 2019, and *Tap-N-Play* sales totaled \$807,000 dollars, a \$45,000-dollar increase over Fiscal Year 2019.

As of January 31, 2020, Fiscal Year 2020 Instant Ticket sales were \$17.4 million dollars, compared to \$17.2 million dollars through the same period last year. Instant Tickets continue to present an opportunity for sales growth as we work to recapture the market share, and shelf space, that the Lottery lost during the one-and-a-half years (2013-2015) we were unable to print new games. The Lottery is focused on putting forth games that are exciting and attractive to players in the District. For example, the \$2 dollar-202 ticket that launched in February 2019 was so popular that a second print run of the ticket was ordered to meet player demand. We also introduced the \$20 dollar-*Roaring Cash* ticket that launched on New Year's Day 2020, and we are excited about the upcoming collaboration in April with Radio One on a \$5 dollar ticket that will focus on our organizations' shared missions of giving back to our community.

Competing for gaming dollars continues to grow increasingly more challenging as the regional gaming market continues to expand. As the smallest of the DMV region's gaming entities, the Lottery must be creative and think out-of-the-box to differentiate our products and our players' gaming experiences to compete with our much-larger neighboring states' multi-million dollar

prizes, expansive distribution networks of gaming offerings that include thousands of lottery retailers, casinos and racetracks, and bigger populations of potential players.

To counter these challenges and compete in a land of “giants,” we will continue to differentiate the Lottery by rolling-out products and promotions that are unique to the District and provide more favorable player and prize experiences. For example, we launched our second \$30 dollar Instant Ticket, *Capital Fortune*, in September 2019 that offers odds of 1 in 120,000 to win one of the game’s three \$1 million-dollar top prizes. In comparison, the Virginia Lottery’s \$30 *Millionaire Maker* ticket offers odds of 1 in 244,800 to win one of the game’s ten \$1 million prizes. Additionally, we produce live events at locations throughout the city to support some of our game product launches that provide players with an opportunity to interact with the Lottery brand and team in a fun manner as well as with chances to win prizes that are funded through our unclaimed prize fund.

To further connect with our players, we bring our Lucky Lottery Mobile (LLM) vending truck to events and to neighborhoods throughout the city where there is a lack of licensed retailer locations. The LLM has a robust schedule of stops from March through October. It has been so popular with players that we deployed a second mobile vending truck in March 2019. As always, we will continue to look for opportunities to bring our products and promotions to players, and to potential players, where they already are in and around the District rather than relying on the hope that they will come to us.

The Lottery also competes for discretionary dollars with casinos in our neighboring states, including the MGM Casino at National Harbor that is less than three miles from the District’s border. MGM has invested heavily in attracting District residents, commuters, and tourists to their facility since opening its doors in December 2016. Thus, the effects of MGM on our business can

and will continue to be felt. In response, the Lottery will continue to be creative with its unique games, events and promotional offerings to help regain the revenue and customers lost to neighboring states as a result of this increased gaming competition. The launch of our District-wide sports wagering mobile app and website which is slated for the end of this month and the rollout of a network of licensed Lottery sports wagering retail locations in the Fall of 2020 will provide the District with an advantage over our neighboring states as sports wagering has not yet been legalized in Maryland or Virginia.

As you know, the “Sports Wagering Lottery Amendment Act of 2018” legalized sports wagering in the District of Columbia and designated the Lottery to assume two distinct roles in the District’s sports wagering offerings: Regulator and Operator. In our new role as regulator, the Lottery is regulating privately-operated sports wagering throughout the District, licensing and monitoring these operations and their gaming-related suppliers for compliance with applicable District and federal laws. The law also allows for the Lottery to operate sports wagering in the District through a citywide mobile application, a website and a network of licensed retailers.

Since adopting final regulations supporting privately-operated sports wagering on August 30, 2019 and subsequently opening the license application process on December 3, 2019, we have undertaken considerable activities and initiatives to implement both privately-operated and District-operated sports wagering. On the privately-operated side, we have created a new Regulation and Oversight division. We have brought in top talent to fill five of the 11 staff positions in that department, and continue to aggressively recruit for the vacant positions. We have established working relationships and are collaborating with the Alcoholic Beverage Regulation Administration (ABRA), Department of Consumer and Regulatory Affairs (DCRA), Department of Small and Local Business Development (DSLBD), Metropolitan Police Department (MPD),

Office of Tax and Revenue (OTR), and other relevant District agencies, as well as with State and Federal agencies to carry out statutory and operational requirements. We have established, through Executive Director Orders, approved sports events and bet types, as well as maps defining the 2-block zones surrounding Class A facilities, and Mobile and Internet Based Sports Wagering Geofencing Enforcement Standards. We have also created an open and transparent licensing process by holding informational Q&A sessions with prospective applicants to encourage participation and maximize revenue generated for the District, and retained highly qualified and experienced professionals to conduct in-depth due diligence background investigations on license applicants to determine their suitability for licensure. To-date, we have accepted three license applications – one Class A Operator and two Supplier, that are currently in the due diligence stage of review and received one application – a Class B Operator – that is under review. The timeline for review is largely dependent on the completeness and complexity of each application received. At times, the complexity of the applicant’s organization requires the submission of additional documents for review. Accordingly, it is difficult to establish a timeline by which sports wagering license applications will be assessed for suitability. Nonetheless, the experienced gained from the review of license applications will allow the Lottery to better gauge and measure the timeline for suitability determinations. Above all, we are committed to upholding a licensing process that is transparent, fair and expedient, but thorough to ensure the suitability of operators and the integrity of sports wagering operations in the District.

While setting up the privately-operated sports wagering program, our team is simultaneously working with our technology vendor, Intralot, on developing the Lottery’s digital sports wagering platforms. Since executing a contract on July 16, 2019 for the platform and services necessary to add this new category to the game portfolio and a new digital sales channel,

we have developed an intricate project plan that incorporates the activities and timeline for building and launching the mobile and web sports wagering platforms, as well as upgrading the Lottery's gaming system, back-office system, game terminals and other equipment necessary to support the retail sports wagering network as well as traditional lottery sales. We continue to draft, policies and procedures to support day-to-day operation of the sports wagering portfolio and sales channels; developed a logo and brand attributes for sports wagering as well as developing multi-media marketing campaigns to drive downloads and account creation; and, expanded the Lottery's responsible gaming program and initiatives. We are now working with Intralot to further develop customer service protocols, call center scripts, frequently asked questions and other informational internal and public-facing documents to best prepare for the launch of this new component of our business.

As part of the implementation plan, we filed proposed rules governing the sports wagering mobile application and website that were published in the *D.C. Register* on January 31, 2020. The 30-day public comment period on the proposed rules closed on Monday, March 2, 2020. We filed a Notice of Adoption of the District Operated Spots Wagering rules with the Office of Documents and Administrative Issuances on March 3, 2020, and anticipate that the Notice of Adoption will be published in the March 13, 2020, edition of the *D.C. Register*.

We are working steadfastly toward a launch of our sports wagering mobile app and website by the end of this month. However, it is imperative that the platforms work correctly and are secure before they are presented for public use. The app and website have undergone Build Verification Testing, Quality Assurance Testing and is currently in the User Acceptance Testing phase to further ensure functionality, usability and compliance with District and federal laws and requirements. Our implementation team will continue to work with Intralot, as well as with third-

party testing and certification partners, to ensure the safety, security and usability of the products before they are launched to market.

In the coming weeks, we will begin drafting rules governing sports wagering at licensed Lottery retail locations that will be proposed in late this Spring for an anticipated roll out of the program this Fall, following an upgrade of lottery terminals and other equipment necessary to support the sports wagering network at retail locations.

Our team will continue to work diligently on developing oversight protocols and standards based on industry best practices to uphold the integrity of lottery and sports wagering in the District while working each day to maximize revenue returned to support our city's vital programs and services.

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