

**Sports Wagering Lottery
Amendment Act of 2018
Bill 22-944**

Before the Committee on Finance and Revenue

The Honorable Jack Evans, Chairman

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Room 500, John A. Wilson Building**



**Testimony of
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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 (DC Lottery). I am pleased to testify on Bill 22-944, the “Sports Wagering Lottery Amendment Act of 2018.”

As you know, a recent U.S. Supreme Court decision ruled that the Professional and Amateur Sports Protection Act (PASPA) was unconstitutional. PASPA was a federal law that barred single-game sports betting outside of Nevada. Now that PASPA has been struck down, states are free to determine whether to legalize sports betting within their borders.

Since the Supreme Court’s ruling, twenty-seven states have either enacted laws or have legislation pending to legalize sports betting. Four states have launched full-scale sports betting, three of those states – Delaware, New Jersey, and West Virginia – fall within the District’s extended gaming market.

With estimates of illegal sports betting in the U.S. varying from \$107 billion (Ernst & Young) to \$150 billion annually (American Gaming Association), it comes as no surprise that states are quickly mobilizing to capture potential revenue for the beneficiaries in their respective jurisdictions.

The rush to legalize sports betting around the country points to the importance of first-mover advantages. 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.

The race to capture the DMV market is already in motion. West Virginia passed a law permitting sports betting in May and went live at brick-and-mortar casinos at the end of August.

One West Virginia casino that is an hour-and-a-half drive from downtown D.C. is actively advertising in this market as the region's sole legal sports book. Delaware, the nation's first post-PASPA mover, is offering full-scale sports betting in its three casinos and has generated more than \$5 million in net revenue since launching in June. Maryland legislation calling for voter referendum on sports betting did not move forward in the 2018 legislative session; however, the state's casinos are eager to move forward with sports betting.

If the District doesn't quickly take advantage of this opportunity, we will lose an important competitive edge. Failure to act expeditiously on sports betting will jeopardize the financial viability of both existing gaming revenue and potential market share.

The DC Lottery's mission is "to provide revenue-generating entertainment through the sale of innovative lottery products and promotions that directly benefits the residents and the economic vitality of the District of Columbia." Since launching our first game in 1982, the DC 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 36 years, DC Lottery players have won more than \$3.7 billion in prizes and our network of licensed retailers have earned approximately \$420 million from the sale of lottery games in their store locations. We have also assisted local nonprofit organizations in raising approximately \$131 million in support of their important causes by licensing Charitable Gaming events and fundraising activities.

The Bill proposes to legalize sports betting in the District. The legislation authorizes the DC Lottery to assume two distinct roles in the District's sports betting offerings: regulator and operator. The DC Lottery will act as regulator of independent operators of sports betting throughout the District. We will license and monitor the independent operators for compliance and collect the proposed 10 percent tax on gross sports wagering revenue from the operator. The

Lottery will also act as an operator of sports betting through a district-wide digital platform and a network of brick-and-mortar retailers.

This legislation provides for a much-needed modernization of the DC Lottery's game portfolio and is critical to the long-term growth and profitability potential of our operation. It is also important to the District as it provides the opportunity to legalize a form of gambling that thousands of residents already participate in illegally, to add consumer protections, to implement responsible gaming principles, and to reduce the reach and risk of the underground market.

Like all subordinate offices within the Office of the Chief Financial Officer, the DC Lottery operates with integrity and security in carrying out our mission, while striving to provide the highest standard of service to the residents, businesses, visitors, and the government of the District of Columbia by being what we refer to as SMARTER – **S**ervice-driven, **M**otivated, **A**ccountable, **R**espectful, **T**rustworthy, **E**mpowered, and **R**esults-oriented. We work hard towards our goal of being a “best in class” organization.

As the U.S. lottery industry's smallest geographic jurisdiction, and the nation's only city lottery, the DC Lottery faces unique challenges, some of which serve as obstacles to growth and in retaining market share of the region's discretionary spending.

The District's population swells to well over 1 million people, or by 72 percent, every workday as commuters pour into the city from the around the region. The numeric difference between D.C.'s daytime and nighttime populations is second greatest in the U.S., bested only by New York City.

Much of the District's daytime population commuting into the city from around the region is heading to work in and around the Federal Enclave. This is relevant because unlike other jurisdictions whose residents work within their state's business districts and live in their

suburban areas, nearly three-quarters of D.C.'s daytime visitors retreat to neighboring states each night, primarily to Maryland and Virginia – limiting when and how the DC Lottery can market our games to these potential customers.

Current legislative restrictions have kept the DC Lottery from modernizing at a pace consistent with the U.S. lottery, gaming, and retail industries. The DC Lottery is limited as to what type of games we sell, the platforms through which we sell, and the physical locations where we can sell.

Specifically, the appropriations act that established the DC Lottery and our funding source also included language that prohibited the advertising and sale of lottery games within the Federal Enclave. The DC Lottery cannot license retailers, sell our games or advertise our brand within the monumental and governmental core of the District, along much of the Potomac waterfront, or abutting Rock Creek Park. Essentially, we cannot have any presence in the heart of the city where hundreds of thousands of people go every day to work, do business, and come to visit.

In addition to the legislative restrictions which impact the Lottery's ability to produce funds for the District, we face competition from our two much larger, neighboring state lotteries and six casinos, including the MGM Casino at National Harbor that looms just over the District's border. According to a recent report from the American Gaming Association, MGM's success has helped catapult the D.C.-Baltimore region to the fourth-largest commercial casino market in the country in 2017. MGM has invested heavily in attracting D.C. residents, commuters, and tourists to their facility.

Technological advances have also widened the field of competition to include the infinite world of iLottery, online gaming, and now sports betting. The floodgates are now open for states

to expand gaming offerings, which is expected to siphon an even greater percentage of discretionary gaming dollars from the District.

The District's physical and demographic changes, along with a dizzying shift in consumer behavior toward "on-demand" online and mobile purchases have affected the DC Lottery's retailer network, further impacting our reach in the marketplace. Over the past six years, the number of stores selling lottery in D.C. has dropped from 502 to 408.

Demographic changes have also impacted who is playing the lottery or more appropriately put – who is NOT playing the lottery in D.C. Getting younger adults interested in traditional lottery games is a challenge for us and for lottery leaders worldwide. Traditional lottery games (paper-based draw games and printed scratchers), the distribution points through which they are largely sold (brick-and-mortar convenience and corner stores), and the method of payment (primarily cash transactions) are considered "generational" and antiquated forms of gaming and entertainment by adults between the ages of 18 to 35 years—if traditional lottery is even considered by this audience at all.

Most Millennials and Generation Z'ers grew up with technology and convenience at their fingertips, and with instantaneous solutions to purchasing goods and receiving services. As such, convincing younger adult consumers that physically waiting in line at a brick-and-mortar store to purchase a paper-ticketed game, which they may not know for several days if they won, is a tough sell.

While younger audiences lack interest in most traditional lottery games, Millennials and Generation Z'ers do participate in sports betting. Sports betting has characteristics valued by younger adult audiences that are missing from existing lottery offerings like the immediacy of results and the competitive and social aspects that sports betting offers.

These limitations combined with a rapidly-evolving and shifting market critically hinder the DC Lottery's ability to competitively retain market share and to attract the next generation of players, ultimately serving to stifle our long-term growth, profitability potential, and revenue return to the General Fund.

The DC Lottery must rapidly modernize and diversify our game portfolio to include new game categories as well as adopt new sales channels/platforms or risk continued loss of revenue for the District. Options that have a larger impact on lottery net revenues, new distribution methods and non-traditional games, like sports betting, should be considered by the District.

This new game category will provide a prime opportunity for the DC Lottery to broaden our appeal and brand recognition, particularly through mobile, at the same time expanding our player base to new audiences and importantly, net new retailers.

In addition to drawing in new players, sports betting also opens the possibility of expanding retailer recruitment in the District to include a new category of businesses: restaurants, bars, and other social settings. The DC Lottery has long struggled to recruit these types of businesses with our traditional product offering, but they are natural venues for sports betting kiosks and other means of placing wagers under the District-operated model. Sports betting as a gaming product, contains the most applicable features, benefits, and entertainment value proposition that is widely recognized as an attractive emerging market in the District of Columbia.

In this effort to expand our game offerings and modernize our platforms to provide mobile and web-based sales channels aimed at attracting and retaining the next generation of DC Lottery players, we must also keep in mind the viability of our network of 400-plus small business partners, and the estimated 3,000 District-based jobs they provide, by finding new,

creative solutions to drive traditional brick-and-mortar lottery retail sales. While it is not feasible, nor would it be a sound business model, to anticipate that all existing DC Lottery retailers will be licensed sports betting locations, there is opportunity to keep our entire existing network of brick-and-mortar licensees engaged through an inclusive mobile launch strategy that drives customers into their stores and sales commissions into their accounts.

The proposed go-to-market plan is to launch sports betting online. Going mobile-and-web-first allows the DC Lottery to quickly achieve two important milestones. The first is the aforementioned speed to market. By employing this strategy, the DC Lottery will be able to bring sports betting to players in the District within four-to-six months from the time the legislation becomes law. It will also allow us to set strong Know Your Customer standards and implement the highest-standard of responsible gambling controls, including age and identity verification, financial and time limits, self-exclusion, time-out controls, and other reality checks from the onset of the program.

A mobile-first strategy also provides us with ample time to engage a well-executed Retail Transformation Project – a necessity in this transition of our brand and game offerings. We will recruit and license optimal retailers, train them, and install state-of-the-art equipment at their locations to support this new game category.

The District's proposed model is unlike any other jurisdiction currently offering sports betting. Of the states that have enacted or are moving to enact sports betting, almost all are home to brick-and-mortar casinos and racetracks. Gaming and racing commissions or gaming control boards regulate casinos and other expanded gaming operations in many U.S. jurisdictions; in others the responsibility falls under the state lottery's purview. Of the four states that have launched sports betting post-PASPA, two (Delaware and West Virginia) are being regulated by

their respective lotteries and Delaware is also operated by the lottery via the state's three casinos. Rhode Island's sports gaming enterprise, which is slated to launch next month, will also be regulated and operated by the state's lottery. More than sixty countries worldwide permit legal sports betting. According to the North American State and Provincial Lottery Association, lotteries regulate 70 percent of the global legal market.

U.S. lotteries have long and vast experience operating within strong regulatory environments. We move cautiously and deliberately toward new revenue opportunities, always keeping in the forefront the express mission to maximize the dollars for the good causes supported in our respective jurisdictions, and the regulatory and statutory framework within which we operate.

As the District's gaming regulator and operator for the last 36 years, the DC Lottery offers brand integrity, responsible gambling controls, and distribution networks valuable to maximizing regulated sports wagering. We will put forth a sports betting product that is socially acceptable, transparent, easy to understand, and tailored to the market's demand. And, equally important, we will work each day to maximize revenue returned to support the District's vital programs and services.

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