

# FY 2018 & FY 2019 Oversight Questions

## DC Lottery & Gaming

1. Please provide an updated organization chart and current Schedule A.

*Please see Attachment A.*

2. How are our lottery sales and transfer to the General Fund performing as compared to our anticipated projections for FY 2019? How was performance for FY 2018? How does this compare with FY 2017 performance?

The Lottery's FY 2019 year-to-date transfer (as of January 31, 2019) is \$18.0 million, which is \$400,000 or 2.2% less than FY 2018's transfer of \$18.4 million through the same period in FY 2018. The FY 2019 decrease in transfer is the result of a higher prize payout, particularly in October and November as compared to the same period in FY 2018.

Lottery sales for FY 2019 (as of January 31, 2019) total \$72.3 million, compared to \$69.0 million through the same period last year. This represents a \$3.3 million or 4.8% increase. The Lottery's terminal game sales have increased from last year by \$1.7 million or 3.2%, and instant ticket sales have increased by \$1.7 million or 11.0%. FY 2019 year-to-date terminal game sales are \$55.1 million, compared to \$53.4 million through the same period last year. FY 2019 year-to-date instant ticket sales are \$17.2 million, compared to \$15.5 million through the same period last year.

The Lottery's FY 2018 transfer was \$49.5 million, an increase of \$3.9 million or 8.55% increase over FY 2017. Lottery sales for FY 2018 totaled \$210.2 million, compared to \$218.7 million in FY 2017. This represents a \$8.45 million or 3.86% decrease. FY 2018 terminal game sales totaled \$160.8 million, compared to \$168.4 million in FY 2017. FY 2018 instant ticket sales totaled \$49.5 million, compared to \$50.3 million through the same period last year.

3. What new games were introduced in FY 2018? How are any new games performing? Are any new games planned for FY 2019? What games were retired, if any, in FY 2018?

In FY 2018, the DC Lottery introduced two new easy-to-play games, *DC-2* and *The Lucky One*, to counter a trend in declining draw games sales.

*DC-2* was introduced on March 11, 2018 as an addition to the family of numbers games (*DC-3*, *DC-4*, *DC-5*). The "pick two" game was designed to serve as an entry-level game aimed at attracting new numbers game players. The bet types are: Straight, Two-Way Box, Straight Two-Way Box, Two-Way Combination, Front Number, Back Number. The game has a top prize of \$50 (\$1 wager) or \$25 (.50 wager) and offers the best odds of winning (1:100) on a straight bet across any of the Lottery's numbers game offerings. In FY 2018, *DC-2* generated \$573,000 in sales for the period March 11, 2018 through September 30, 2018. As of February 5<sup>th</sup>, FY 2019 sales to-date are \$181,600. *DC-2* is in its growth phase. The Lottery is implementing several marketing

promotions to raise awareness and increase sales of this product, along with promoting the entire family of numbers games.

*The Lucky One* was launched on May 20, 2018. Players select one number out of 36 numbers. Each wager costs a minimum of \$1, but there are additional higher wager options available to play. In addition to the base game of selecting one number, *The Lucky One* offers three different bet types. In addition to the player being able to select one number, they have the option to select high/low, and odd/even, for an additional wager. Drawings are held every four minutes, seven days a week from 6:00 a.m. to 2:00 a.m. *The Lucky One* shares a monitor with *Keno*. In FY 2018, *The Lucky One* generated \$112,400 in sales for the period of May 20, 2018 through September 30, 2018. *The Lucky One* is in its growth phase. The Lottery is implementing several marketing promotions to raise awareness and increase sales to this product.

In May 2019, *Keno* will be refreshed with new visuals.

The Lottery continues to introduce creative and innovative instant “scratcher” ticket products into the marketplace with new releases each month. There are 35 new instant tickets on the FY 2019 release calendar.

There are four new Fast Play games in development and five new Tap-N-Play games in development.

There are no new draw-based terminal games being introduced or retired in FY 2019.

4. Please confirm that your FY 2019 budget includes \$5,312,00 for operating and administrative expenses, \$1,078,000 for Lottery Retailer commissions, \$30,000 for royalty fees, \$648,000 for compliance FTEs, and \$150,000 for startup costs. If there are changes to these numbers, please highlight and explain them. Please provide a breakdown of budget adjustments that will be or have been made by program, activity, fund detail, and comptroller source group.

The figures cited in the question are costs included in the Fiscal Impact Statement for Bill 22-944, the “Sports Wagering Lottery Amendment Act of 2018” issued on November 28, 2018, prior to the Council’s passage of the bill on December 18, 2018. The Lottery must first secure a contract to acquire the necessary platform and services before launching this new category of gaming. The Lottery will not launch Lottery-operated sports wagering in FY 2019; accordingly, there will be no operating and administrative expenses or Lottery retailer commissions paid in FY 2019. Royalty fees were removed from the bill during Committee markup on November 28, 2018. There will be compliance positions added to the FY 2019 budget to support the Lottery’s regulation of Class A and Class B Sports Wagering Operators and startup costs associated with establishing the regulatory framework as well as developing the licensing process. Please see table below for estimated adjustments that will need to be made to the Lottery’s FY 2019 budget.

Activity/Service	Estimated Cost - FY 2019
Startup Contractor Costs	600,000
Licensing System MOU w/DCRA*	520,000
CBE Training Amendment	125,000
12 FTEs	775,088
Equipment (computers, phones, tablets for additional staff)	54,000
Facilities Modifications (to accommodate additional staff)	136,000
Marketing, Communications & Branding Costs	250,000
Contingency Budget	331,513
<b>Total</b>	<b>\$ 2,791,601</b>

\*\*Phase 1 buildout. Phase 2 in FY 2020 estimated at \$247,500 + \$191,875 in annual maintenance/support.

5. You previously mentioned plans to re-launch six seasonal games and develop six new games in FY 2019 for Fast Play; four new Tap-N-Play games in FY 2019; as well as goals to grow Instant Tickets to 30% of Lottery overall sales with 38-40 new launches – please provide a status update on these efforts.

The Lottery developed an innovative Fast Play game release schedule that responds to customer demands and provides variety in the marketplace. As of February 2019, we have successfully relaunched – *Spooky Sevens*, *Turkey Loot*, *Candy Cane Cash*, *Lucky Clover* and *Slam Dunk Dough*. *Basketball Frenzy*, *Cash Kickoff* and *Fiesta Sorpresa* will be launched before September 30, 2019. We have four new Fast Play games in development – *Retro Riches*, *10x the Cash*, *20x the Cash* and *50x the Cash*.

FY 2019 Fast Play game sales are \$2,543,547 as of February 5, 2019. FY 2018 total Fast Play sales were \$9.24 million, a \$673,000 or 7.84% increase over FY 2017.

DC Lottery is enhancing its Tap-N-Play game portfolio by developing and releasing five new games:

1. *Spring for Cash*
2. *Summer Fortune*
3. *Pumpkin Picks*
4. *Merry Merry Money*
5. *DC Jackpot Progressive*

FY 2019 Tap-N-Play game sales are \$801,083 as of February 5, 2019. FY 2018 total Tap-N-Play sales were \$2.6 million, a \$375,000 or 12% decrease from FY 2017.

In FY 2019, the Lottery has significantly increased its marketing efforts in both the Fast Play and Tap-N-Play portfolios. Targeted promotions and cross-marketing opportunities with other games

in the portfolio are helping to increase awareness and sales.

The Lottery's Instant "Scratcher" Ticket portfolio is experiencing growth in FY 2019, thanks to an exciting product release schedule and a continued boost from the introduction of the District's first \$30 ticket that was launched in the final weeks of FY 2018. As of February 5, 2019, Instant "Scratcher" Ticket sales are \$1.8 million higher than the same time last year.

There are 35 new ticket releases planned for FY 2019.

In terms of growing the Instant "Scratcher" Ticket portfolio's share of the overall portfolio, we are gradually moving the needle. Instant "Scratcher" Ticket sales currently represent 23.8% of all Lottery sales. In FY 2018, the share was 23.5% and in FY 2017 it was 23%.

FY 2018 Instant "Scratcher" Ticket sales were \$48.69 million, a \$729,677 (1.5%) decrease as compared to FY 2017 sales. Approximately 33 new games were released in FY 2018. There were 42 new games released in FY 2017.

6. How are instant tickets and associated contracts performing? Please also comment on efforts you have undertaken to recapture lost market share, and performance compared to 2012 peak performance of about \$60 million annually.

Instant "Scratcher" Tickets and associated vendor contracts are performing well. The Lottery continues to maintain contracts with the industry's three print vendors to produce our instant tickets and anticipate sales will continue to trend positively.

The Instant "Scratcher" Ticket product portfolio for FY 2019 is also performing well, as we strive each year to recapture market share lost after not having any new games printed/released for 1.5 years (2013 – 2015). As of February 5, 2018, Instant "Scratcher" Tickets have yielded \$17.9 million in sales, compared to \$16.1 million this time last year. That represents an increase of \$1 million or 11%. The Lottery closed FY 2018 with \$49.49 million in instant sales, slightly down 1.6% from \$50.3 million in FY 2017.

The Lottery is excited about its FY 2019 Instant "Scratcher" Ticket release calendar and its performance in market thus far. The 35-ticket release plan includes a mix of traditional cash-focused games that resonate with core lottery players in our competitive gaming market, along with new unique DC-centric themed games and niche products offering significant cash prizing. To remain competitive, the Lottery launched its first-ever \$30 scratcher, *\$10 Million Dollar Cash Extravaganza* in September 2018. We chose to differentiate our \$30 product by offering players **the best odds of winning one million dollars** in the region. Player reception to this new product has been great. Holiday 2018 was the most successful holiday season for the Lottery. We deployed a different holiday marketing strategy, included a second chance contest, opened a pop-up shop, in addition to offering an agent incentive bonus.

In addition, the Lottery continues to offer innovative experiential prizing that attracts both traditional and new lottery players. For the first time ever, Caps fans will have the ability (only through a DC Lottery second chance contest offered through our *Washington Capitals 2018 Stanley Cup Champions* scratcher that was released in October 2018) to win an additional \$50,000 in a special On-Ice-Challenge. This spring, the Lottery will also release a Washington Nationals-licensed scratcher product. Moving forward, continue to look for the DC Lottery to roll-out innovative products and promotions that will set us apart from regional competition.

7. What are any other actions the Lottery has taken or is pursuing to become more competitive with Maryland and Virginia? What are any effects since the opening of the MGM casino at National Harbor?

Competing for gaming dollars is becoming increasingly more challenging as the regional gaming market continues to grow.

Our Instant “Scratcher” Ticket print runs are significantly smaller than those of our neighboring state lotteries, due to the much smaller population in the District; because of this, we cannot support matching multi-million-dollar top prizes as they do. To counter this challenge and compete, we will continue to differentiate ourselves by rolling-out unique products and promotions that offer not only better odds of winning sizable prizes, when possible (like with our \$30 Instant Ticket, *\$10 Million Dollar Cash Extravaganza* which offers 1:150,000 odds to win \$1 million), but also greater player and prize experiences. In addition, we are cultivating new and exciting retail opportunities. For example, this past holiday season, we successfully launched our first-ever Lottery holiday pop-up shop which was part of the Downtown Holiday Market. We will continue to look for other pop-up shop opportunities as well as host events at Union Station, increase the number of in-store lottery promotions and plan to deploy a second mobile vending truck this spring. The Lottery will continue to look for opportunities to bring our products and promotions to players and future players where they already are in and around the District.

In addition to the competition from our two much larger, neighboring state lotteries, the Lottery also competes for discretionary dollars with six casinos, including the MGM Casino at National Harbor that looms just over the District’s border. According to a report released in August 2018 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 itself is now ranked the 3rd largest commercial gaming property (based on gaming revenue) in the U.S. 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.

8. How many establishments in the District of Columbia sell lottery tickets? Please provide a comparison to the number of establishments over the past five years. How many outlets are planned or anticipated for FY 2019 and the next five years?

The Lottery currently has 401 active retailers. It is important to note that the total number of Lottery retailers can fluctuate daily due to recruitment, attrition, internal retailer ID reconciliations and enforcement of retailer regulations that range in consequence from temporary suspension to revocation.

We are working diligently to diversify our retailer base to include more grocery stores, social settings and restaurants. Year-to-date, we have recruited nine new retailers with the goal of onboarding a total of 40. With the potential of adding a network of retailers who would be licensed to offer sports wagering, we project to bring in approximately 90 additional retail locations through 2022.

FY 2019 as of 2/8/19	401 Licensed Agents
FY 2018 as of 2/7/18	409 Licensed Agents
FY 2017 as of 2/1/17	423 Licensed Agents
FY 2016	431 Licensed Agents
FY 2015	472 Licensed Agents
FY 2014	497 Licensed Agents

9. You previously mentioned a goal of recruiting 40 retailers in FY2019. Please provide a status update on this effort.

The Lottery consistently focuses efforts to recruit strong licensees at new retail locations and to maximize revenue at its existing retailer locations. Our FY 2019 goal remains to recruit 40 retailers with efforts to strategically recruit new business types including social settings, grocery stores and restaurants. To date in FY 2019, we have recruited and licensed nine new retailers and continue to focus on these specific business channels.

10. Please provide a status update on the DC Lottery Retailer Portal which had a planned “soft launch” date of May 1, 2018.

The DC Lottery Retailer Portal was launched in May 2018 with its first application completed on June 8, 2018. To date, the Lottery has received 26 license applications via the retailer portal.

11. How is Mega Millions performing? How is Powerball performing? How have these products impacted the transfer to the general fund? Have they impacted the lottery in other ways? Please explain.

The multi-state jackpot game sales are driven by high top prize offerings. Accordingly, *Mega Millions* and *Powerball* are both performing higher in FY 2019 as compared to FY 2018. As of

February 5, 2019, year-to-date *Mega Millions* sales are \$3.2 million higher – a 140% increase – compared with the same period in FY 2018. *Mega Millions* reached its highest-ever jackpot of \$1.6 billion in October 2018 which drove the significant year-over-year gain in sales. The Lottery generated more than \$1.5 million in *Mega Millions* sales for the October 23, 2018 draw.

*Powerball* sales also benefitted from a hefty jackpot in October 2018 that reached \$750 million and was in market concurrently with the record-setting *Mega Millions* jackpot. The favorable *Powerball* jackpot in the early weeks of FY 2019 contributed to a year-to-date increase of 6% or \$235,000 in game sales.

Large jackpot offerings in multi-state games like those in October 2018 attract the attention of non-traditional lottery players and help introduce our brand and other game offerings to these new players.

12. Please list each contract, procurement, lease, and grant (“contract”) the agency has; also including those awarded, entered into, extended and option years exercised, by your agency during FY 2017, FY 2018, and FY 2019, to date. For each contract, please provide the following information, where applicable:

- The name of the contracting party;
- The nature of the contract, including the end product or service;
- The dollar amount of the contract, including budgeted and actually spent amounts;
- The term of the contract;
- Whether the contract was competitively bid or not;
- The name of the agency’s contract monitor and the results of any monitoring activity; and
- Funding source.

*Please see Attachment B.*

13. Please list all RFPs that are out for solicitation, along with a brief description. What RFPs are being planned for solicitation (topic and description)? Please provide an update on the expected timeline previously provided for the following contracts:

- Website Vendor Contract
- Gaming System and Related Services Contract
- Instant Tickets
- Auditing daily numbers
- Instant Ticket Warehousing
- Mobile Vendor

*Please see Attachment C.*

14. Please identify all electronic databases maintained by your agency, including the following:

- A detailed description of the information tracked within each system;
- The age of the system and any discussion of substantial upgrades that have been made or are planned to the system; and
- Whether the public can be granted access to all or part of each system.

*Please see Attachment D.*

15. Please provide a copy of any updates to DC Lottery rules and regulations. Additionally, please provide a brief description of the nature of each update.

During FY 2018, the Lottery adopted new rules to implement *DC-2* and *The Lucky One*. The Notices of Final Rulemaking are attached as *Attachment E*.

16. What has the agency done in the past year to make the activities of the agency more transparent to the public? In addition, please identify ways in which the activities of the agency and information retained by the agency could be made more transparent.

Transparency of operations and upholding the public's confidence are key components to maintaining a successful business, and this is especially true in the lottery industry. In the past year, the Lottery has increased its winner awareness campaigns through traditional media outreach, on our web and social media platforms, and in-store postings to identify and promote players' wins. The Lottery has also recently resumed posting its current and historic financial statements on its website, [dclottery.com](http://dclottery.com), for download and review. The Charitable Games division holds Bingo demonstrations for interested groups and players and spectators alike are invited to attend the Lottery's public events at which prizes are awarded and can watch how winners' names and numbers are drawn in a very open and understandable manner. Independent auditors oversee and verify all lottery drawings. In addition, the Lottery continues to extend an open invitation to the public to view daily and nightly drawings at lottery headquarters and drawing videos are uploaded to the Lottery's website. Also posted on Lottery's website is a running list of winning numbers, contest winners' names, a list of all instant ticket prizes by game and top remaining prizes. Paper copies of this information is available to players upon request in our Prize Center. Game information is available on our website in six languages in compliance with the Language Access Act. The Lottery is working on issuing "how-to-play" procedures for instant tickets that will be posted online so players have a clearer understanding of game mechanics. Because there isn't a sole or designated initiative in the District that Lottery proceeds fund, it is a challenge informing the public how these dollars are expended once transferred to the General Fund; however, the Lottery can increase its communication and better promote that every dollar of unclaimed prize money is returned to players through promotions and other initiatives that award cash prizes.



17. What steps do you take to monitor fraud, theft, and abuse of the instant ticket and scratchers?

The OCFO and the Lottery's management team take fraud, theft and abuse very seriously. Numerous measures are in place to monitor instant ticket inventory. The processes and procedures were developed in conjunction with the OCFO's Chief Risk Officer. The Lottery's monitoring activities include, but are not limited to, the following:

- The Lottery's Security Division receives all instant ticket inventories via secured truck delivery and the tickets are placed in a secured vault.
- Multiple layers of access control are in place for the instant ticket inventory vault (i.e., badge swipe, pin code and an alarm system).
- The Lottery's Security Division monitors the instant ticket inventory via closed circuit television.
- Any authorization for access to the secure area where instant tickets are warehoused must be granted by the Lottery's Security Division.
- The Lottery's Inventory Manager monitors through the Back Office System (BOS) active retailer's instant ticket inventory reports. Discrepancies are escalated to the Security Division for further review.
- Retailers are restricted to ordering tickets via the Lottery's telephone sales (tel-sel) operation.
- Two regulations require system receipt of the instant ticket inventory within 24 hours, and activation within 30 days.
- "In Transit" and "Issue Status" reports are generated and monitored daily for regulation compliance by the retailers.
- Retailers not in compliance with the 24-hour system receipt regulation are contacted daily until compliance is met or their instant ticket inventory is confiscated by the Lottery's Security Division.
- Retailers not in compliance with the 30-day activation regulation have their instant ticket inventory force activated (changing tickets to a selling status) by the Lottery to bring them into compliance.
- The Lottery's billing terms were reduced to allow for quicker cash collections.
- Routine exterior rounds are conducted by the Lottery's contract security officers, to ensure doors are secured.
- The Lottery's Security Division conducts background checks on all employees and contractors.
- Instant ticket inventory reported stolen from a retailer location is marked as such in the Lottery's Back Office System. The Lottery's Security Division receives live notifications when validations of instant ticket inventory marked as stolen are attempted. Lottery Security uses this information to assist the Metropolitan Police Department in apprehending suspected burglars. Lottery Security also reviews the surveillance cameras at retailer locations when available and applicable to help with lottery-related investigations.

18. Please provide an update on implementation of recommendations made in the 2016 Best Practices Study, including:

- Develop a Retail Advisory committee
- Implement retailer minimum sales requirements
- Promote easy to play bets and cross-sell DC-5 with DC-3 and DC-4 games

#### Develop a Retail Advisory committee

In April 2018, a contracted consultant conducted face-to-face meetings with licensed Lottery retailers to help us enhance our sales and retail merchandising efforts. While in-store, they were able to help the Lottery gauge retailers' interest in participating in focus group-type panels. Retailer interest in providing feedback was high; however, the majority of Lottery retailers run small businesses and indicated they face challenges leaving their locations during business hours. To overcome this obstacle, leadership of the Executive, Sales and Marketing departments regularly visit licensed retailers to speak to owners, managers and clerks to collect feedback on lottery operations, new games/promotions, sales and marketing programs. The Lottery continues to explore digital/electronic measures to reach a broader audience of retailers with minimal time commitment on their end.

Additionally, the Lottery is working with its technology vendor, INTRALOT/DC09LLC, to undertake a formal retailer survey to track the general state of retailers' in-store lottery business and how it compared to previous years; assess the attitudes of retailers towards the Lottery; rate the Lottery's performance on their interactions with retailers and meeting their needs; identify major causes of concern for retailers; and help the Lottery better understand retailers' needs in the District's rapidly-evolving market. The vendor anticipates soliciting proposals for this work in late February 2019 with a contract award and work commencing in March/April 2019.

#### Implement retailer minimum sales requirements

For FY 2019, the Lottery maintains its current administrative regulation pertaining to minimal sales standards for licensed retailers. In October 2018, the Lottery issued a bulletin to each of its 400+ licensed retailers reminding them of the minimum sales requirement along with a message relaying our commitment to the partnership with our retailers and their success in growing lottery sales and resulting commissions. We are reviewing lottery sales performance throughout the year and will follow up with retailers who are at risk of not maintaining the required sales levels with the goal to assist our lower-performing retail partners, who may need guidance in order to come into compliance.

#### Promote easy to play bets and cross-sell DC-5 with DC-3 and DC-4 games

Last fiscal year, the Lottery launched *DC-2*, an easy-to-play numbers game, into the Lottery's game portfolio. This provided a platform to launch a promotional campaign highlighting the entire "family of numbers games" (*DC-2*, *DC-3*, *DC-4* and *DC-5*) that included radio, television and point-of-sale advertising.

We continue to support the numbers game family in FY 2019 with a series of “Bonus Week” promotions that will launch throughout the year aimed at generating excitement around each of the individual games (for example: in mid-January a “Win More with DC-4” that increased prize amounts for winning-ticket holders), and have DC-2 second chance promotion currently running (2/2/19 – 3/11/19) to generate excitement around the game’s first year in the market. In May, the Lottery will introduce the *Show Me the Bling* which cross-promotes DC-5 with our *Bling Bling Bucks* Fast Play game, and later in the year we will offer a promotion that ties in all four of the numbers games.

In addition to the marketing and advertising initiatives, the Sales department has worked to address this recommendation by conducting regular in-store “how to play promotions” for all our games. We will continue to explore opportunities to cross-promote the numbers game category.

19. You previously mentioned the updating of the Licensing and Charitable applications to fillable forms, and establishing a portal to electronically file, through at least two phases. Please provide an update on these efforts including milestones achieved in 2018.

The online Retailer Portal allows new and existing retailers to complete and electronically file the application process for retailer licensing. The Lottery also established a dedicated retailer space inside its headquarters and installed workstations to offer onsite access for prospective retailers to complete the application process. The goal for FY 2019 is to work on implementing and offering the same online process for Charitable Games.

20. What awards, recognition, or accolades has your agency won or been nominated for in the past year?

- 2018 North American Association of State and Provincial Lotteries (NASPL) Award – Buddy Roogow Innovation Award for Best New Instant Game for the *Neighborhoods* ticket.
- 2018 Telly Awards for the *Neighborhoods* ticket campaign in the following categories:
  1. Craft Cinematography for Local TV (Gold)
  2. People’s Telly: Local TV Commercial for Local TV (Bronze)
  3. General Entertainment for Branded Content (Bronze)
  4. General Entertainment for Local TV (Bronze)
  5. Craft-Videography/Cinematography for Branded Content (Bronze)

*\* The Telly Award is a designation received by the ad agency on behalf of work performed for the DC Lottery. It is one of the most sought-after awards by industry leaders, from large international firms to local production companies and ad agencies.*

21. You previously mentioned efforts to amplify research and focus group testing with annual surveys as well as with vendors currently under contract within their FY2019 scope of work. Please provide a status update on this effort.

The Lottery's efforts to create a better understanding and awareness of its brand presence in the market and public perceptions formally began in FY 2018. The Lottery, working with Delehanty Consulting, LLC under an existing contract, embarked on a series of retailer visits aimed at helping to improve upon our overall customer service performance – including service to players and the public, as well as strengthening our relations with Lottery retail partners. These retailer audit visits were conducted during April, May and June 2018 during which there was open dialogue with retailers about the Lottery's products, terminals, player activated machines, game promotions, sales coordinators, displays of marketing materials and instant tickets. The feedback and audit results helped to identify many of the Lottery's strengths, but more importantly areas for improvement in servicing the players and partners. The Lottery used these recommendations and additional assessment from the consultant to further shape its sales and marketing approach in FY 2019.

The Lottery is working with its technology vendor, INTRALOT/DC09LLC, to undertake research and brand tracking studies benchmarking attitudes about general perceptions and attributes associated with playing the lottery and perceptions of the DC Lottery as an institution. Additionally, the surveys will track the play level by various games in order to understand customers' playing habits. The results will help shape the Lottery's marketing and communications initiatives, messaging, branding and product offerings. Additionally, a formal retailer survey will be conducted to track the general state of retailers' in-store lottery business and how it compared to previous years; assess the attitudes of retailers towards the Lottery; rate the Lottery's performance on their interactions with retailers and meeting their needs; identify major causes of concern for retailers; and help the Lottery better understand retailers' needs in the District's rapidly-evolving market. INTRALOT/DC09LLC, anticipates soliciting proposals for this work in late February 2019 with a contract award and work commencing in March/April 2019.

22. Please confirm implementation occurred for the two recommendations that were included in the District of Columbia Management Recommendations for Fiscal Year 2017 issued by SB& Company LLC (OIG-No. 18-1-20MA). (#6 – Implement Periodic Review of Systems Permissions, #7 – Develop Vulnerability Scan Procedures for Timely Remediation of Critical Risks)

The two recommendations from SB & Company, LLC were implemented by the IT Department on June 4, 2018 and July 1, 2018, respectively, per the Lottery's submitted corrective action plans. To date, there have been three ICS system account permission reviews with no exceptions, and three of the seven ICS vulnerability scans completed. Four of the scans were not completed due to software upgrades underway at the time of the scheduled scans.

23. Please list all settlements entered into by the agency or by the District on behalf of the agency in FY18 or FY19, to date, and provide the parties' names, the amount of the settlement, and if related to litigation, the case name and a brief description of the case. If unrelated to

litigation, please describe the underlying issue or reason for the settlement (e.g. administrative complaint, etc)

OCFO staff are available to brief the committee on personnel matters, upon request.

24. Please describe the agency's procedures for investigating allegations of sexual harassment or misconduct committed by or against its employees. List and describe any allegations received by the agency in FY18 and FY19, to date, whether or not those allegations were resolved.

Allegations of sexual harassment or misconduct are quickly and thoroughly investigated. If the investigation finds credible evidence that substantiates the allegation, appropriate disciplinary action is taken against the offender.

25. Please list the administrative complaints or grievances that the agency received in FY18 and FY19, to date, broken down by source. Please describe the process utilized to respond to any complaints and grievances received and any changes to agency policies or procedures that have resulted from complaints or grievances received. For any complaints or grievances that were resolved in FY18 or FY19, to date, describe the resolution.

The OCFO resolves grievances as outlined in the Collective Bargaining Agreement between the District of Columbia Government and the labor organizations representing Compensation Units 1 and 2. There have been no OCFO policy changes and/or updates resulting from any filed grievances.

26. Please provide a detailed timeline for the implementation of sports wagering. When will you begin accepting license applications? How long will it take you to review license applications? Assuming sports betting operators can be ready immediately, when do you expect sports betting to be live?

The sports wagering project implementation team is developing the regulatory framework and processes necessary to carry out the licensing and oversight of sports wagering. The team is working against an aggressive timeline and is committed to putting forth a program that upholds the integrity of the new gaming activities authorized in the "Sports Wagering Lottery Amendment Act of 2018." The Lottery anticipates adopting sports wagering regulations in July 2019 and the licensing process will begin shortly thereafter. The anticipated review and approval process for licenses is approximately 30 to 45 days. The Lottery 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 will be able to immediately begin contract negotiations. Lottery estimates contract negotiations will take up to 60 days. The final contract will be brought

to Council for review. Should Council approve the final contract, the Lottery estimates system development, testing and implementation will take approximately six months after approval, bringing the estimated launch date to January 2020.

27. Please provide a copy of your draft regulations for sports wagering. Please provide a date that these regulations were published in the D.C. Register or an anticipated date that they will be published. What is your timetable for finalizing these regulations? When will the Lottery's regulatory responsibilities for sports wagering be completed?

Sports wagering regulations are currently being drafted. Please see the response to Question 26 for additional information.

28. Does your current lottery vendor offer sports wagering in any U.S. jurisdiction or have they applied for a license to offer sports wagering in any U.S. jurisdiction? If so, do they offer mobile sports wagering or in-person sports wagering in that jurisdiction? Are you aware of any future plans in another jurisdiction by your lottery vendor?

There are eight U.S. states (Delaware, Mississippi, Nevada, New Jersey, New Mexico, Pennsylvania, Rhode Island and West Virginia) in which legal sports wagers are taking place. INTRALOT does not currently operate in any of those jurisdictions. In October 2018, INTRALOT secured a contract and approval from the New Mexico Lottery Board to provide a sports lottery parlay-style game through the New Mexico Lottery's retail network of approximately 1,100 terminals. This program is expected to launch in late Q3 or early Q4 of this year. Additionally, INTRALOT operates the Montana Lottery's Sports Action Football and Racing fantasy games through its technology platform.

The vendor has shared that it is currently in advanced discussions with several of their current customers to deploy sports betting, including both retail-based offerings as well as online platforms. The Lottery is not privy to which of the vendor's customers these discussions are with.

29. What is the status of negotiations over a new contract with your vendor to offer in-person wagering at retailers? Have you negotiated for a contract to operate a sports wagering mobile application? Does your vendor have a prototype of a mobile application and can you provide copies of the prototype? If not, please provide an expected timeline and dates for these actions.

The Lottery is not yet authorized to enter into negotiations for a new contract with the incumbent or any vendor. 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 will be able to begin contract negotiations. The estimated timeframe for contract negotiations is up to 60 days.

30. Have you had conversations with Department of Small and Local Businesses (DSLBD) about their new responsibilities with regards to sports wagering? Have you prepared a process to

review DSLBD certifications of CBEs or joint-ventures, or waivers? If not, what is the timeline for these actions.

A meeting was held on Thursday, February 14, 2019 with DSLBD to discuss the approved sports wagering legislation and all the specifics related to the CBE requirements. A smaller working group has been established and weekly meetings will begin next week. Both the Lottery and DSLBD are committed to working closely to ensure that all statutory requirements are met and the requirements are clear to license applicants. Our two organizations have an existing model for partnership that we plan to continue with this very important initiative.

31. Please provide a copy of current revenue projections for sports wagering in the District and explain any differences from the November 2018 FIS for Bill 22-944. Please also include in your calculations the impacts on these revenue projections stemming from the delay in passing the procurement practices exemption and from amendments passed on December 18<sup>th</sup>?

The figures in the November 2018 FIS for Bill 22-944 assumed a start date of July 2019 for both privately-operated and Lottery-operated sports wagering in the District. Based on the implementation plan that has been mapped out since the bill's passage in December 2018, the Lottery anticipates that private operator sports wagering will begin in September 2019. Accordingly, the projected tax revenue collected from private operators in Fiscal Year 2019 will reflect a three-month difference in start date.

The delay in passing the "Sports Wagering Procurement Practices Reform Exemption Act of 2019" shifted the anticipated launch of Lottery-operated sports wagering from July 2019 to January 2020. Accordingly, there will be no sports wagering revenue generated for the six-month period. There will also be no operating and administrative expenses or Lottery retailer commissions paid in relation to sports wagering in Fiscal Year 2019 or for the first three months of Fiscal Year 2020.

The Lottery must create a regulatory unit to support the licensing and regulation of private sports wagering operators. In addition to the personnel-related costs to advance the program, there are startup costs associated with establishing the regulatory framework as well as building out the licensing platform/developing the licensing process, and to offer a biannual CBE training program that is mandated per the bill.

The table below is from the November 2018 FIS for Bill 22-944. Office of Revenue Analysis is in the process of updating net revenue projections to reflect more accurate information obtained since November, factoring in the above-stated delay and identified costs associated with implementation. These figures will be included in the revenue estimates available on February 28, 2019.

<b>Bill 22-944 – Sports Wagering Lottery Amendment Act of 2018</b>					
<b>Total Net Revenue (\$ in 1,000s)</b>					
	FY 2019	FY 2020	FY 2021	FY 2022	Total
<b>Privately Operated Sports Wagering</b>					
Tax on Private Sports Wagering Revenue <sup>(a)</sup>	\$389	\$1,712	\$1,883	\$2,072	\$6,056
Private Operator Licensing Fees <sup>(b)</sup>	\$1,553	\$13	\$13	\$13	\$1,592
Subtotal <sup>(c)</sup>	\$1,942	\$1,725	\$1,896	\$2,085	\$7,648
<b>OLG Operated Sports Wagering</b>					
Gross Sports Wagering Revenue <sup>(d)</sup>	\$12,141	\$53,420	\$56,610	\$61,206	\$183,376
Lottery Retailer Licensing Fee <sup>(e)</sup>	\$825	\$0	\$825	\$0	\$1,650
Operating and Administrative Expenses <sup>(f)</sup>	(\$5,312)	(\$23,371)	(\$24,767)	(\$26,777)	(\$80,227)
Lottery Retailer Commission <sup>(g)</sup>	(\$1,078)	(\$4,741)	(\$5,215)	(\$5,737)	(\$16,770)
Royalty Fee <sup>(h)</sup>	(\$30)	(\$134)	(\$142)	(\$153)	(\$458)
Compliance FTEs <sup>(i)</sup>	(\$648)	(\$879)	(\$895)	(\$910)	(\$3,332)
Startup Contractor Costs	(\$150)	\$0	\$0	\$0	(\$150)
Subtotal	\$5,748	\$24,295	\$26,417	\$27,628	\$84,088
<b>Grand Total Net Revenue</b>	<b>\$7,690</b>	<b>\$26,020</b>	<b>\$28,313</b>	<b>\$29,713</b>	<b>\$91,737</b>

Table Notes:

- a) Assumes the 10 percent tax on privately operated sports wagering revenues will start being collected on July 1, 2019. These funds will be dedicated towards certain purposes.
- b) Assumes OLG will issue licenses for 4 Class-A Operators, 10 Class-B Operators, 3 Management Service Providers, 2 Suppliers, and 30 Occupational employees during fiscal year 2019.
- c) The gross sports wagering revenue tax will be dedicated towards specific purposes. Not included in these figures are royalty fees to be paid to OLG and due to the sports governing bodies.
- d) Revenues based on a market analysis conducted by the Office of Revenue Analysis. Assumes revenues will start being collected on July 1, 2019.
- e) Assumes OLG will issue 165 Retail licenses in fiscal year 2019.
- f) Includes marketing and advertising expenses, platform and trading services and equipment, and vendor commissions.
- g) Revenue paid to retail licensees for in-person wagering.
- h) Royalty fee of 0.25 percent of gross sports wagering revenue paid to MLB, MLS, NBA, NFL, NHL, and WNBA for use of official league data, copyrights, trademarks and images.
- i) Six Grade 12, Step 10 employees and one Grade 11, Step 10 employee. Assumes 24 percent fringe rate, 1.75 percent cost growth, and an employee start date of January 2, 2019.

32. Please break down how much of each year’s revenue from sports wagering will be returned to the General Fund, how much will be directed to violence prevention, and how much will be directed to early childhood education.

As dictated by the language in the Sports Wagering Lottery Amendment Act of 2018, the revenue realized from the 10% tax imposed on Class A and Class B sports wagering operators will be directed as follows: The first \$200,000 collected will be directed to the Department of Behavioral Health to fund programs aimed at preventing, treating, and researching gambling addiction; the remaining revenue will be equally divided with 50% directed to fund the Birth-to-Three for All DC program, and 50% directed into the Neighborhood Safety and Engagement Fund.



The net profit generated from Lottery-operated sports betting will be returned to the General Fund, which is consistent with net profit on traditional Lottery game sales.

33. Please provide a list of position title, description, funding source, position status (filled or vacant), and start date for all staff who have been or will be assigned to work on sports wagering.

The sports wagering project implementation team is staffed by OCFO employees from various departments that are working to develop the regulatory framework and numerous processes necessary to carry out the licensing and oversight of sports wagering. 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 support the Lottery's new regulatory role. Based on the current assessment, this department of regulatory oversight will need approximately 10-to-12 full-time staff. Positions and functions in this soon-to-be created department of sports wagering regulatory oversight will include licensing, audit, compliance and enforcement. We are working against an aggressive timeline with a goal to begin hiring in April.

Additionally, as we progress there will be a need to support the Lottery-operated sports wagering operations with skilled marketing positions in the areas of strategic product development, customer acquisition and retention, and advertising/promotion development. The timeline for these hires would be the final months of FY 2019/early FY 2020.

The Lottery formulated its FY 2019 and FY 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. Positions will be partially funded by the Lottery's current Personnel Services budget, remaining needs and other expenses necessary to successfully implement the programs (such as partnering with DCRA to build out a secure licensing system that does not reside on the Lottery's central gaming system) will be funded using the Local Budget Act provision allowing for an increase in the Lottery's budget, with notice to the Mayor, for amounts necessary to cover "...game-related fees directly associated with unanticipated excess lottery revenue".

Our plans include use of the anticipated increased revenue for the issuance of licenses for sports wagering, and the expenses necessary to successfully implement the program as outlined in the response to Question 34.

34. Please provide a complete budget for FY19 – including dollar amounts, source codes, contracts, that is projected or anticipated to be spent on the implementation of sports wagering.

The sports wagering implementation team is working against an aggressive timeline to develop the regulatory framework and numerous processes necessary to carry out the licensing and oversight of sports wagering. The team is currently updating the total cost of implementation to

meet the established deadlines. Below are anticipated needs thus far identified and projected costs to fully support the Lottery’s new regulatory responsibilities. As of February 19, 2019, no contracts or MOUs have been executed. A portion of these expenditures will be offset by revenue collected from licensing fees with the remainder funded using the Local Budget Act provision allowing for an increase in the budget, with notice to the Mayor, for amounts necessary to cover “...game-related fees directly associated with unanticipated excess lottery revenue”.

<b>Activity/Service</b>	<b>Estimated Cost - FY 2019</b>
Startup Contractor Costs	600,000
Licensing System MOU w/DCRA*	520,000
CBE Training Amendment	125,000
12 FTEs	775,088
Equipment (computers, phones, tablets for additional staff)	54,000
Facilities Modifications (to accommodate additional staff)	136,000
Marketing, Communications & Branding Costs	250,000
Contingency Budget	331,513
<b>Total</b>	<b>\$ 2,791,601</b>

\* Phase 1 buildout. Phase 2 in FY 2020 estimated at \$247,500 + \$191,875 in annual maintenance/support.

35. When do you project Maryland and Virginia will offer sports wagering? Will our immediate neighbors offering sports wagering change the District’s approach or revenue projections? Please explain your answer.

Our initial assumptions were that Virginia would enter the market in 2020 and Maryland in 2024. That could change based on legislative actions underway in both states. Of the multiple bills filed this legislative session in Virginia, one expanded gaming bill passed the Senate was referred to House Committee on Rules. If no action is taken before the end of session February 23rd, it would delay Virginia’s entry to market. Maryland lawmakers are seeking to bypass a voter referendum by offering sports wagering through certain state lottery and gaming commission licensees, which could advance its entry into the market. A bill (HB 1132) filed earlier this month, would allow Maryland video lottery operators and horse racing licensees to offer sports betting and calls for legalizing sports wagering by July 1, 2019. The next possible date for a voter referendum is November 2020.

Once the regional competition intensifies with Virginia and Maryland entering the legalized sports wagering market, we anticipate an impact on revenue which is reflected in previously-issued revenue projections calculated by the Office of Revenue Analysis. Based on our initial assumptions the revenue decline would occur in 2024 when both neighboring states are expected to be offering sports wagering. Therefore, it is important for the Lottery to establish a strong customer base and build loyalty prior to the arrival of competition in the DMV region.

Much of the player migration will depend on the channel distribution and model of sports wagering offered in each jurisdiction as some players will naturally migrate to what is most convenient for them. The Lottery will implement loyalty programs to retain players and combat migration, as well as offer cross-product (lottery) propositions. We will have to be nimble, but also careful to ensure tactics do not drastically impact gross profit margins.

36. Please provide a description of the regulatory schemes of each state that has legalized sports betting since the Supreme Court struck down the Professional and Amateur Sports Protection Act of 1992, including whether they have casinos, whether their lottery is involved in sports wagering, whether they allow mobile sports wagering, and how many mobile sports wagering applications are operating in the state.

*Please see Attachment F.*

37. Please comment on how the Wire Act impacts the District's Lottery and sports wagering activities in light of the U.S. Department of Justice (DOJ) slip opinion released on January 14, 2019.

The major impact of the opinion could affect lottery operations. With the recent release by the Department of Justice regarding the re-interpretation of the Wire Act of 1961, the lottery industry is placed in a complicated situation.

The new opinion interprets the Wire Act as applicable to any form of wagering that crosses state lines (i.e., involves interstate commerce). The Deputy Attorney General granted a ninety (90) day delay on implementation of new opinion (through April 15, 2019).

In support of the products they sell, lotteries across the U.S. have been transmitting millions of transactions daily through interstate communications networks. Most transactions originating from a lottery's home state are transmitted by wire, wireless, satellite, cable and other communications channels for processing in data centers in other states and then returned through intermediate states back to the home state where the transaction is finalized with the delivery of a paper or electronic ticket to the customer.

The opinion would adversely impact brick-and-mortar retailers selling traditional lottery products (*Powerball*, *Mega Millions* and instant scratch tickets) in all 45 lottery jurisdictions, certain casino gaming programs in commercial casinos, and all interactive gaming – iLottery (GA, IL, KY, MI, NH, PA) and iGaming in casinos/racinos (DE, NV, NJ, PA).

U.S. lotteries annually return over \$30 billion dollars to state governments. The new DOJ opinion was developed without consulting the states it critically impacts. If enforced, the opinion would severely limit the capability of all U.S. lotteries to continue to produce the revenue. In particular, the highly popular multi-state jackpot games, *Mega Millions* and *Powerball*, would not be able to be conducted. Instant tickets would not be able to be validated.

And commercial casinos would not be able to offer wide area progressive games. Furthermore, it would take years to develop and deploy solutions that would be compliant.

The Lottery will continue reviewing the 2019 opinion to determine how it may impact our current and future operations, and, along with our counterparts in 45 other U.S. jurisdictions, exploring courses of action that can be taken so our lotteries can continue generating revenues vital to the beneficiaries in our respective jurisdictions.