



GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND CHARITABLE GAMES
2235 SHANNON PLACE, S.E. 5TH FLOOR
WASHINGTON, D.C. 20020-5731



January 3, 2019

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, NW, Suite 504
Washington, DC 20004

Re: Implementation of Sports Wagering

Dear Chairman Mendelson:

This letter relates to the request of the Office of the Chief Financial Officer (OCFO) and the Office of Lottery and Charitable Games (DC Lottery) to the D.C. Council to approve emergency and temporary legislation at the January 8, 2019 Legislative Meeting. The proposed legislation will exempt the DC Lottery's initial procurement and contract for purposes of immediate implementation of sports wagering and lottery modernization.

With approval of this legislation, the DC Lottery, under the OCFO's oversight, will immediately negotiate a new contract with the current vendor operating the DC Lottery's gaming system, Intralot, a world leader in sports wagering. Intralot is part of a joint venture co-owned by a District Certified Business Enterprise (CBE) currently operating the DC Lottery's gaming system.¹

This new contract is essential to implementing sports wagering and modernizing the DC Lottery. The costs of delay are significant. Issuing a competitive Request for Proposals for this contract is estimated to take up to three years, causing a substantial delay in implementation of the recently-approved sports wagering legislation. The OCFO's Office of Revenue Analysis estimates delay will cost the District \$60.9 million in sports wagering revenues over the FY 2019-2022 financial plan period.

To avoid prolonged procurement periods for complex gaming systems and related services and, most importantly, the attendant risk of suffering considerable revenue losses, several state lotteries did not open new procurements and opted to extend existing or negotiate more favorable

¹The cost of the current DC Lottery contract is approximately \$7 million annually. The new contract will be negotiated based on a percentage of gaming revenue.

contracts with their current gaming system vendors. Arkansas, California, Georgia, Michigan, New Hampshire, New Mexico, Ohio, and Rhode Island are a few recent examples.

The DC Lottery retained Spectrum Gaming Group, an internationally-recognized independent consulting firm, to analyze the impact of a delay in implementation on the District's economy given the high likelihood that Maryland and Virginia will approve sports wagering legislation in the near future.

The following are key findings of Spectrum's report:

- The District's position as a "first mover" is critical to the success of sports wagering in the District. If Virginia and Maryland offer sport wagering before the District, these states will be better able to establish customer relationships with their residents, thus depriving the District of potential revenue from commuters, who double our adult population every work day. This revenue may never be recovered.
- Spectrum concluded that "a decision to not extend Intralot's contract would make it impossible to meet the goals of the DC Lottery to be an early mover. Given the unique DC market and the benefit of being first to market, Spectrum believes that extending and expanding the current gaming system contract with Intralot is the most economically advantageous option."
- Spectrum also provided information on the impacts on the District economy of a delay, which translates into approximately \$165 million in reduced economic activity relating to sports wagering over a ten-year period.

The DC Lottery will negotiate this contract to achieve best value for the District and meet or exceed the District's CBE requirements. The DC Lottery will then take all necessary steps to implement sports wagering and, at the same time, modernize the DC Lottery with a digital platform and state-of-the-art technology that takes the DC Lottery into the 21st century.

If you have any questions, please feel free to contact me at 645-8076.

Sincerely,



Beth Bresnahan
Executive Director
Office of Lottery and Charitable Games

cc: Councilmember Jack Evans
Jeffrey S. DeWitt, Chief Financial Officer