

**PUBLIC OVERSIGHT HEARING ON  
THE FISCAL YEAR 2021 AND 2022 PERFORMANCE OVERSIGHT**

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

**The Honorable Kenyan R. McDuffie, Chairman**

**March 3, 2022, 9:00 a.m.  
Virtual Meeting Platform**



**Testimony of  
Frank Suarez, Executive Director  
Office of Lottery and Gaming**

**Fitzroy Lee  
Acting 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 Frank Suarez, Executive Director of the Office of Lottery and Gaming (OLG). I am honored to have this opportunity to present testimony on OLG's performance for Fiscal Years 2021 and 2022. I began my tenure at OLG on August 31, 2021, after having spent almost eight years at the North Carolina Education Lottery as the head of Brand Management and Communications. Joining me virtually today are my colleagues Ridgely Bennett, Chief Counsel for OLG, Craig Lindsey, Agency Fiscal Officer, and Peter Alvarado, Director of Regulation and Oversight.

OLG's mission is "to responsibly maximize revenue generation for the District of Columbia through the sale of innovative lottery and sports wagering products while providing gaming regulation and oversight that upholds the highest standards of integrity and public trust." This mission was recently updated to better reflect OLG's expanded gaming portfolio with *GambetDC* and iLottery, as well as its increased regulatory role in privately operated sports wagering and games of skill. It also emphasizes OLG's commitment to growing revenue for the District through both sales growth and expense management. Integrity, Equity and Inclusion, Customer Centric, Innovative, One Team, Quality, and Responsible Growth are our core values and guide OLG in its efforts to achieve its mission.

This year marks 40 years since the Lottery's inception in 1982. Since launching our first game, the Lottery has generated more than \$7.8 billion in ticket sales and transferred more than \$2.2 billion in net profit to the District's General Fund. Lottery players have won more than \$4.2 billion in prizes and our network of licensed retailers has earned approximately \$461.8 million in commissions from the sale of lottery games in their store locations. We have also assisted local

nonprofit organizations in raising more than \$134.9 million in support of their important causes by licensing charitable gaming events and fundraising activities.

We continue to ensure that OLG's core functions and services are both operating safely and generating revenue for the District's General Fund. The COVID-19 pandemic has undoubtedly impacted aspects of our operations, but OLG staff, retailers, and vendor partners have persevered through the ongoing challenges of remote work, a significantly reduced commuter population, and retail traffic limiting mandates caused by continued COVID-19 variants.

Despite these ongoing challenges in Fiscal Year 2021, OLG was able to surpass its pre-pandemic performance. In Fiscal Year 2021, Lottery sales totaled \$224 million, as compared to \$208.1 million in Fiscal Year 2020, and \$213 million in Fiscal Year 2019. This \$15.9 million, or 7.6%, year-over-year increase in sales, drove the Lottery's Fiscal Year 2021 transfer to \$48.1 million, an increase of \$10.1 million, or 26.6%, above the Fiscal Year 2020 transfer of \$38 million. This transfer also surpassed the pre-pandemic Fiscal Year 2019 transfer of \$45 million. This is a tremendous achievement as the District has yet to return to its pre-pandemic commuter and retail traffic patterns. The Fiscal Year 2021 prize payout was 55.5% as compared to 59.1% in Fiscal Year 2020. The reduction in prize payout combined with the increase in sales drove the Lottery's net transfer growth.

The success in Fiscal Year 2021 was no small feat and comes despite the continued reduction in foot traffic at store locations and the retreat of a majority of the District's daily commuters to home offices in neighboring Maryland and Virginia. I want to commend the OLG team and its partners for continuing to evolve and adapt their operations accordingly.

Store traffic at District retail locations continued to be below pre-pandemic levels during Fiscal Year 2021, continuing the trend of lower instant ticket orders from our retailer partners. In April 2020, OLG made a business decision to reduce the number of tickets printed/launched and has since been adjusting the game release schedule and corresponding advertising support to maximize the return on investment. As store traffic has modestly increased, so has the number of instant ticket games being launched. In Fiscal Year 2021, OLG released 34 new instant ticket games, which is six more than the 28 games launched in Fiscal Year 2020. Instant ticket sales in Fiscal Year 2021 were \$46.6 million, compared to \$47.1 million in Fiscal Year 2020, representing a 1.1% reduction year-over-year.

The DC Lottery is unique in many ways, one of which includes our product mix. While most U.S. lotteries have a product portfolio dominated by instant tickets, our product mix consists primarily of terminal games with 75.6% of our sales coming from this category. In Fiscal Year 2021, terminal game sales totaled \$169.3 million, which amounted to a year-over-year increase of \$8.4 million, or 5.2%, compared to Fiscal Year 2020 sales of \$160.9 million. This was driven primarily by the strong performance of our numbers games (*DC 2*, *DC 3*, *DC 4*, *DC 5*, and *The Lucky One*), which grew \$5.3 million or 4.4% compared to Fiscal Year 2020, as well as the addition of drawing days to multi-state games like *Powerball*, which added one additional drawing day and *Lucky for Life*, which expanded to drawings seven days a week. Sales were up 34% for *Powerball* and 17.9% for *Lucky for Life* compared to Fiscal Year 2020.

A key part of the OLG's evolution during the pandemic was the launch of iLottery. With fewer players commuting and diminished foot traffic at retail locations, it was important to make the Lottery more accessible for players. Additionally, OLG took advantage of the growth of social and internet gaming by providing a digital gaming experience. Online play is expected by current

players and attracts new and younger players who have traditionally avoided the Lottery due to its paper-based, traditional brick-and-mortar sales channel. iLottery was launched in December 2020 and has been increasing in its popularity and sales, with registrations totaling 20,454 as of February 15, 2022. The introduction of e-instants has also provided players with a new way to experience the entertainment typically experienced with instant tickets at retail, while adding the convenience of playing from any device with a more interactive gaming experience. Sales of e-instants totaled \$8 million during the last nine months of Fiscal Year 2021 contributing to overall iLottery sales of \$8.46 million with more than 3.6 million wagers placed.

While OLG was able to adapt in Fiscal Year 2021 and overcome some of the obstacles presented by the pandemic, Fiscal Year 2022 is presenting OLG with a new set of challenges. Lottery sales year-to-date in Fiscal Year 2022 (as of January 31, 2022) are \$72.9 million, which is up \$2.7 million, or 3.9%, compared to \$70.2 million in Fiscal Year 2021. However, Lottery's Fiscal Year 2022 year-to-date transfer (as of January 31, 2022) is \$15.9 million, which is \$3.3 million, or 17.2%, less than Fiscal Year 2021's transfer of \$19.2 million through the same period. The Fiscal Year 2022 decrease in transfer is the consequence of a higher prize payout percentage compared to the same period in Fiscal Year 2021. This year's prize payout percentage through January 31, 2022, is 59.7%, as compared to 52.6% for the same period last year.

The increased prize payout is primarily due to a decline in sales from higher margin terminal games combined with sales growth in lower margin instant tickets. Fiscal Year 2022 year-to-date (as of January 31, 2022) terminal game sales are \$52.2 million, compared to \$56.5 million through the same period last year. OLG's terminal game sales have decreased from last year by \$4.3 million, or 7.6%, largely attributable to a lack of significant jackpot amounts for the multi-state *Mega Millions* game and lower trending sales of our numbers games. *Mega Millions'*

jackpot reached \$1 billion for the January 22, 2021 drawing. Mega Millions has not come close to reaching this level in Fiscal Year 2022. Numbers game sales year-to-date in Fiscal Year 2022 are \$39 million, which is \$2.7 million lower than the same period in Fiscal Year 2021. Fiscal Year 2022 year-to-date instant ticket sales are \$15.4 million, compared to \$13.6 million through the same period last year. Instant ticket sales have increased by \$1.8 million or 13.2%.

The remainder of Fiscal Year 2022 will be an exciting time for the OLG, its retailers, and players. In the spring, OLG will have completed the upgrade of its central gaming system. With the upgrade's completion comes new functionality for retailers, along with all new retailer terminals, ticket checkers, and multimedia screens. This summer, *Race2Riches*, the Lottery's horse-themed monitor game, will be re-launched with all new graphics, an improved prize structure, and new bet types. Lottery has also initiated an instant ticket optimization project that evaluates and enhances all aspects of instant ticket sales, including the portfolio mix, point-of-sale merchandising strategy, retailer allocations, and many other variables that impact the life cycle of an instant ticket and its success. We will continue to add new e-Instant games for iLottery players every three to four weeks, including being one of the first lotteries in the nation to launch a progressive jackpot e-instant game (one of the first in the nation) that allows iLottery players to win a continually growing jackpot instantly. We will also have enhanced promotional and Customer Relationship Management (CRM) capabilities that will help drive more effective iLottery player acquisition and retention.

The state of sports wagering in the District is strong. In Fiscal Year 2021, private sports wagering operators obtained more than 1.5 million wagers totaling approximately \$147 million in handle (dollar amount of wagers placed) and provided almost \$2.16 million in tax revenue to the District. Private sports wagering operators have had 874,050 wagers placed year-to-date (as of

January 31, 2022) in Fiscal Year 2022 resulting in approximately \$64.1 million in handle. This is an increase in handle of \$13.1 million or 25.7% compared to the same period in Fiscal Year 2021. However, tax revenue has decreased year-to-date by \$316,957, totaling \$607,026, which is a decline of 34.3%. At the beginning of Fiscal Year 2022 we approved the nation's first Class B License for Grand Central, a small business in the Adams Morgan neighborhood, along with the grand opening of the Bet MGM retail sportsbook at National's Park.

*GambetDC* also experienced strong wager and handle growth in Fiscal Year 2021, its first full fiscal year of operation. More than 1.2 million wagers totaling \$42.2 million were placed via *GambetDC* in Fiscal Year 2021. The significant handle growth has continued into Fiscal Year 2022 (as of January 31, 2022), with 625,295 wagers placed equaling \$21.4 million in handle, an increase of 23% in handle compared to the same period in Fiscal Year 2021. The strong growth has been driven by a 6.8% increase in registrations (as of January 31, 2022), the ongoing implementation of product enhancements such as streamlining the registration process; providing more diverse and richer proposition bets; offering competitive pricing on key events; and expanding into retail locations. *GambetDC* launched its retail network in July of 2021 at historic DC locations such as Ben's Next Door, Lou City Bar, and Takoma Station. OLG accelerated its retail rollout in Fiscal Year 2022, adding 36 new retailers in the last four months for a total of 40 *GambetDC* retailers as of February 25, 2022. Due to significant start-up costs, as well as high customer acquisition, marketing, and regulatory expenses, *GambetDC* did not provide a net transfer to the District in Fiscal Year 2021. However, now that most of the start-up costs have been incurred and marketing expenses normalized, *GambetDC* has transferred \$930,000 to the District during Fiscal Year 2022 (as of January 31, 2022), surpassing the tax revenue that has been collected from private sports operators year-to-date.

We will continue to build on the momentum we have achieved thus far in Fiscal Year 2022. It will be an exciting time for *GambetDC* as we look to not only make ongoing enhancements but complete a total revamp of the mobile app and website interface that will be more intuitive and user friendly for players. In addition, we have increased the payout percentage cap to 90% to be competitive with private operators and neighboring states. *GambetDC's* retail rollout will continue its accelerated pace and will expand to offer over-the-counter sales that will complement the self-serve terminals already in the market and add capacity during heavy traffic periods. A new marketing plan is being developed for *GambetDC* that will better position the brand amongst its competitors in the District, be better targeted at key player segments, and will provide a stronger return on investment as we look to not only acquire, but also retain players.

Privately operated sports wagering will continue to expand in the District. The Lottery's Regulation and Oversight division is working diligently towards the potential approval of a third Class A license at Audi Field in the spring and a second Class B license for a local business.

The Sports Wagering Lottery Amendment Act of 2018 established the District as the first and only jurisdiction in the country to have a local-first model. This model allows both private and government operated sports wagering to coexist while placing the priority on local and small businesses. Being the first provides great opportunities, but also comes with its own set of challenges. These challenges include the setting of expectations with very limited data available and many assumptions, particularly as this was established very early in the legalization of sports wagering across the United States. Setting expectations would be a complicated task, even without the sudden, unexpected onset of a global pandemic.

Because of these early expectations, much has been speculated about the success of the model in the District. The Lottery operated sportsbook in the District, *GambetDC*, launched on



May 28, 2020, with the first privately operated sportsbook license (Class A) approved on July 31, 2020. It has been just 20 months since the District launched a new government operated sportsbook from the ground up while also building a first-of-its-kind privately operated sports wagering regulatory system. The model is in its infancy, and we expect the current positive trend to continue. Given the magnitude of this undertaking, it is important to monitor its continued progress. One key way to measure performance is to compare the District to other similar jurisdictions. Since the District has a unique sports-wagering model, and by far the smallest population, the best option is to analyze overall sports wagering revenue on a per capita basis. Per capita comparison is utilized in the gaming industry because it minimizes bias due to population size variances. If we analyze the latest quarter (October 1, 2021, through December 31, 2021) of sports wagering revenue data of the District and other jurisdictions, which can be seen in the table attached to my testimony, we can see that the District provided \$1.92 per capita of sports wagering revenue during that time period. This is more than double the \$0.89 per capita in tax revenue that is provided by our neighboring state Virginia, which has benefited from the retreat of the District's commuters and has been lauded as the most successful launch of sports wagering in the region to date.

These results and upcoming initiatives provide a glimpse of what is possible in the future for sports wagering in the District. In addition to the recent high growth, it is important to recognize what makes the District model so strong. First, more of the profits from sports wagering in the District stay in the District. With the 40 current *GambetDC* retailers and one Class B licensee, there are 41 local small businesses benefiting directly from sports wagering sales. *GambetDC* retailers have a low barrier to entry in the sports wagering market. As of January 31, 2022, *GambetDC* retailers have earned \$109,000 in commissions. In addition, the majority of the

profits from *GambetDC* go to the District versus a smaller percentage of profits obtained from private sports wagering operators as tax revenue. *GambetDC* ensures that the District will get at least 10% of its handle. On the other hand, the District currently only receives 10% of gross gaming revenue (GGR) from private sports wagering operators. GGR is the handle minus the payout, which results in the District receiving 10% of a much smaller number since the payout is removed from handle, allowing private operators to maintain a large portion of the profits.

Secondly, this model minimizes the risk to the District. The smaller tax revenue from private operators is not guaranteed. As a matter of fact, one Class A licensed private operator provided zero tax revenue to the District in October because it lost more than it made that month. *GambetDC* eliminates that risk because its contract is structured to guarantee 10% of handle as revenue, regardless of what the sportsbook pays out or loses. Finally, and most importantly, we can ensure that sports wagering across the District is done responsibly. *GambetDC* will not over-saturate the market with advertising and promotions to entice players and possibly raise the risk of problem gambling. Not only does our business model make over-saturation from *GambetDC* unaffordable, but our core value of Responsible Growth ensures that we will do what is best for our community. Private operators have been competing heavily to acquire players, as illustrated by recently reported losses attributed to heavy marketing and player acquisition costs. Too much aggressive advertising can have a negative impact on player health. The District's local-first model is built to succeed in the long run and needs the appropriate time to prove it.

I am excited to have the opportunity to build on our recent success and look forward to the continued, responsible growth of gaming revenue for the District. In closing Chairman McDuffie, I would like to thank you, the Council, and the Mayor for continued support of the Office of Lottery

and Gaming and for this opportunity today. This concludes my testimony, and I am happy to answer any questions the Committee may have.