PUBLIC OVERSIGHT HEARING ON

THE FISCAL YEAR 2022 AND 2023 PERFORMANCE OVERSIGHT

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

The Honorable Kenyan R. McDuffie, Chairman

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

Glen Lee
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 2022 and 2023. 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 is both a gaming operator and regulator in the District. OLG operates lottery and sports wagering, while regulating charitable gaming, games of skill, and privately operated sports wagering. OLG's mission is "[t]o 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 reflects 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.

Since the Lottery's inception in 1982, OLG has generated more than $8.1 billion in ticket sales and transferred more than $2.3 billion in net profit to the District's General Fund. Players have won $4.4 billion in prizes and our network of licensed retailers has earned approximately $475.4 million in commissions from the sale of lottery games and sports wagers in their locations. We have also assisted local nonprofit organizations in raising more than $136.5 million in support of their important causes by licensing charitable gaming events and fundraising activities.

As the District enters its third year of the COVID-19 pandemic, 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 pandemic's impact continues throughout many aspects of our operations, with OLG staff, retailers, and vendor partners continuing to be resilient while enduring a diminished commuter base and a declining city population. However, the significant rise of inflation and gas prices in 2022 introduced a new variety of economic distresses for both players and retailers. OLG continues to work to mitigate the impact of these new obstacles. In Fiscal Year 2022, OLG sales for both lottery and sports wagering totaled $274.5 million, as compared to $264.8 million in Fiscal Year 2021, and $214.2 million in Fiscal Year 2020. Sales for lottery and sports wagering, combined, increased by $9.7 million, or 3.7%, year-over-year, while OLG's Fiscal Year 2022 transfer was $40.7 million, a decrease of $7.4 million, or 15.4%, below the Fiscal Year 2021 transfer of $48.1 million.

The lottery industry faced a significant challenge in 2022 as most jurisdictions across the country have found it difficult to repeat the short-lived sales records that were gained in 2021, driven primarily by pent-up demand from the 2020 pandemic shutdowns. The opening of additional sources of entertainment have also given players a much larger range of entertainment options and reduced Lottery's share of their entertainment budgets. Growing Lottery became even more challenging in the face of record gas prices and inflation rates not seen since before the inception of the Lottery, more than 41 years ago. The majority of U.S. lottery jurisdictions were unable to drive sales growth in Fiscal Year 2022, with 69% of U.S. jurisdictions experiencing zero or negative sales growth during that period. Lottery sales in Fiscal Year 2022 totaled $217 million, down $7 million or 3.1%, as compared to $224 million in Fiscal Year 2021. In contrast, the Fiscal Year 2022 Lottery prize payout increased significantly to 60.4% as compared to 55.5% in Fiscal Year 2021. The increase in prize payout combined with the decrease in Lottery sales resulted in a

net transfer of approximately $38 million in Fiscal Year 2022, which was $10.1 million less than the transfer of $48.1 million in Fiscal Year 2021.

To combat the loss of commuters and diminished foot traffic at retail locations, OLG worked to launch iLottery as quickly as possible after the start of the pandemic in 2020 and make Lottery more accessible for players. OLG also made sure to benefit from the growth of social and internet gaming with the launch of its e-instant games through iLottery. The ability to play online attracts new and younger players who have traditionally avoided Lottery due to its paper-based, traditional brick-and-mortar sales channel. iLottery has experienced continued strong growth since its launch in December 2020 with 40,164 players registered (as of January 22, 2023). iLottery sales were $21.0 million in Fiscal Year 2022, which was up 149%, or $12.6 million, compared to Fiscal Year 2021. This tremendous growth was primarily driven by e-instants, which achieved total sales of $19.1 million in Fiscal Year 2022. This was an increase of $11.1 million or 138.3% compared to the prior year.

The variety of economic and local factors impacting the District's retail traffic in Fiscal Year 2022 made the management of instant ticket inventory and game launches challenging. In Fiscal Year 2021 OLG made a business decision to increase the number of new instant tickets launched, which helped to meet the pent-up demand after the reopening of the District and the lowering of COVID-19 restrictions. However, that demand quickly diminished in Fiscal Year 2022 and resulted in a high level of instant ticket inventory. OLG has since been adjusting the game release schedule to allow for inventory depletion. In Fiscal Year 2022, OLG released 28 new instant ticket games, which is six less than the 34 games launched in Fiscal Year 2021. Instant ticket sales in Fiscal Year 2022 were $43.9 million, compared to $46.7 million in Fiscal Year 2021, representing a 5.9% reduction year-over-year.

While instant tickets represent a strong growth opportunity, the Lottery product mix consists primarily of terminal games with 71% of our sales coming from this category. OLG is unique in this aspect as most lotteries in the country have a portfolio dominated by instant tickets. In Fiscal Year 2022, terminal game sales totaled $154.0 million, which amounted to a year-over-year decrease of $15.3 million, or 9%, compared to Fiscal Year 2021 sales of $169.3 million. This was primarily due to a decline in our Numbers games (*DC 2, DC 3, DC 4, and DC 5*), which decreased $13.9 million or 10.9% compared to Fiscal Year 2021. Our two multi-state jackpot games, *Powerball* and *Mega Millions*, also experienced a combined decline in sales of $875,687 or 6.1% due primarily to lower jackpot levels for *Mega Millions*. On the other hand, our other multi-state game, *Lucky for Life*, continued to experience strong sales in Fiscal Year 2022 achieving an increase of 34.1%, or $765,234, thanks to its expansion to daily drawings in Fiscal Year 2021. As previously mentioned, Lottery prize payout in Fiscal Year 2022 increased to 60.4%. Lottery's large reliance on terminal games results in short-term, difficult-to-predict swings in payout due to the randomness of wins that is a natural part of most terminal games. In addition, Lottery experienced its highest level of growth in Fiscal Year 2022 in lower margin e-instant games, which have an average payout of approximately 90%.

While the challenges presented in Fiscal Year 2022 have continued into Fiscal Year 2023, OLG has worked hard to mitigate the declines and reduce the impact of the ongoing economic distresses. Lottery sales year-to-date in Fiscal Year 2023 (as of December 31, 2022) are $56.2 million, which is up $344,323, or 0.6%, compared to $55.8 million in Fiscal Year 2022. Lottery's Fiscal Year 2023 year-to-date transfer (as of December 31, 2022) is $11.8 million, which is $665,650, or 5.3%, less than Fiscal Year 2022's transfer of $12.5 million through the same period. The year-to-date Fiscal Year 2023 decrease in transfer is the consequence of a higher prize payout

percentage compared to the same period in Fiscal Year 2022. This year's Lottery prize payout percentage through December 31, 2022, is 67.7%, as compared to 60.9% for the same period last year.

The increased prize payout is primarily due to a decline in sales from higher margin terminal and instant ticket games. Fiscal Year 2023 year-to-date (as of December 31, 2022) terminal game sales are $39.8 million, compared to $39.9 million through the same period last year. OLG's terminal game sales are relatively flat compared to last year with a slight decrease of 0.2%. Significant jackpot amounts for both of the multi-state jackpot games (*Powerball* and *Mega Millions)* have driven jackpot game sales up $2.8 million or 87.4% compared to Fiscal Year 2022. *Powerball's* jackpot reached $2 billion for the November 7, 2022 drawing. This was the first $2 billion jackpot ever in the United States. Numbers game sales year-to-date in Fiscal Year 2023 are $27.5 million, which is $2.6 million lower than the same period in Fiscal Year 2022. Fiscal Year 2023 year-to-date instant ticket sales are $10.4 million, compared to $12.0 million through the same period last year. Instant ticket sales have decreased by $1.7 million or 13.9%. iLottery continues to experience amazing growth with e-instants achieving $6 million in sales year-to-date in Fiscal Year 2023, which is up 56.3% compared to the same period last year.

The remainder of Fiscal Year 2023 will bring innovation and continuous improvement to Lottery, its retailers, and players. In the spring, Lottery will have fully completed the implementation of new retail point-of-sale terminals that will provide retailers with new functionality, as well as receiving all new ticket checkers, and multimedia screens. Lottery sales coordinators will have a new sales tracking tool to help better prepare for retailer visits, as well as track retail location performance and sales opportunities. A pilot of new touchscreen vending machines will also be launching this spring, providing players more game choices and a more

modern vending experience. In early summer, a new Lottery mobile app will be launched allowing players to purchase iLottery games, check their tickets for winners, and access many other key lottery functions wherever they go with their mobile devices. *DC Keno*, one of the Lottery's monitor draw games, will increase the frequency of its drawings from every four minutes to every three and a half minutes, giving players more daily chances to play and win.

Lottery continues its instant ticket optimization initiatives that evaluate and enhance 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. Ticket sizes and prize structures have already been optimized and new game planning tools have been implemented. Lottery will increase the number of instant tickets launched from 28 to 35 this fiscal year, including the launch of a new $30 instant ticket that will be uniquely positioned within the DMV area. The number of promotions for our Numbers Games have doubled in Fiscal Year 2023 to mitigate the declining sales trends for those games while continuing to evaluate additional game enhancements with our vendor and additional sales opportunities through retailer engagement. We have accelerated our launch of new e-Instant games for iLottery players to every two weeks and will be adding a new third-party e-instant game provider that will expand the variety of our e-instant game portfolio and provide players with new game styles.

Sports wagering in the District continues to significantly expand. In Fiscal Year 2022, private sports wagering operators obtained almost 2.3 million wagers, up 44% compared to Fiscal Year 2021, totaling approximately $160 million in handle (dollar amount of wagers placed), which was up 9%. While wagers and handle were up, tax revenue from private operators totaled $1.4 million, down $718,771 or 33.3% compared to the prior fiscal year. Key drivers of private sports

wagering growth in Fiscal Year 2022 included the approval and opening of the first Class B license for Grand Central Sportsbook and the third Class A license at Audi Field for Fan Duel.

Private sports wagering operators have had 684,291 wagers placed year-to-date (as of December 31, 2022) in Fiscal Year 2023 resulting in approximately $44.3 million in handle. This is a decrease in handle of $6.8 million or 13.3% compared to the same period in Fiscal Year 2022. However, tax revenue has increased year-to-date by $62,535, totaling $568,627, which is an increase of 12.3%. Growth of privately operated sports wagering in the District is expected to continue. The District's second Class B License was approved with the new Over Under Sportsbook starting operations in late December 2022. In addition, three companies have started a Class B application and it is expected they will compete their respective applications soon. OLG's Regulation and Oversight division has also received notification that a local business with gaming experience is interested in a Class B license with hopes of opening in the summer.

GambetDC experienced phenomenal growth in Fiscal Year 2022, surpassing private operator wager and handle growth rates. More than 1.9 million wagers totaling $58.3 million were placed via *GambetDC* in Fiscal Year 2022, that is a growth rate of 59% for wagers and 38% for handle respectively compared to Fiscal Year 2021. *GambetDC* provided a net transfer to the District in Fiscal Year 2022 of $2.7 million. A key driver of *GambetDC's* growth was the increasing of the payout percentage cap to 90%, which made *GambetDC* significantly more competitive with private operators and neighboring states. In addition, *GambetDC's* accelerated retail rollout also continued adding 53 new retailers in Fiscal Year 2022 for a total of 57. A new marketing plan was also developed for *GambetDC* that better positioned the brand amongst its competitors in the District, better targeted key player segments, and reduced costs for a stronger return on investment.

GambetDC's remarkable growth has continued into Fiscal Year 2023 (as of December 31, 2022), with 692,320 wagers placed equaling $20.5 million in handle, an increase of 30% in handle compared to the same period in Fiscal Year 2022. As of December 31, 2022, *GambetDC* has transferred an estimated $696,236, compared to $680,586 for the same period last year, representing a $15,650 or 2.3% increase in Fiscal Year 2023.

GambetDC launched a revamped user experience in late October 2022, providing players with improved navigation and an experience that better aligns with private operator apps. We will look to continue to build on the tremendous growth experienced by GambetDC thus far. The second half of Fiscal Year 2023 will be exciting for *GambetDC* as we look to continue to make ongoing enhancements to the player experience. The next phase of our user interface upgrade will include upgrading the web version of the platform, adding new betting options like same game parlays, and introducing a "rookie" mode that will guide novice sports bettors through the wagering process. In addition, we will continue upgrading our data sources, ensuring we have access to official data from the four big leagues (MLB, NBA, NFL, and NHL) while also expanding betting options for players with new markets. *GambetDC's* retail rollout will continue along with *GambetDC's* optimized marketing efforts which are better targeted and more cost effective.

The District's model for sports wagering is succeeding and continues to consistently outperform other jurisdictions per capita. Since the District has a unique sports-wagering model, and by far the smallest population of all state-run sports wagering jurisdictions, the best option for measuring success is to analyze 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 across jurisdictions. An analysis of the months in Fiscal Year 2022 (October 1, 2021,

through September 30, 2022) of sports wagering revenue data of the 13 U.S. jurisdictions that have had mobile and online sports wagering for at least one year, which can be seen in the table attached to my testimony, shows that the District provided $6.20 per capita of sports wagering revenue during that time. The District is the highest performing jurisdiction with a 10% tax rate and is 42% higher than the $4.36 per capita in tax revenue provided by Virginia, which has been cited as a benchmark for performance in our region and has a higher tax rate of 15%. In addition, it's important to note that the two best performing jurisdictions by far, New Hampshire and Rhode Island, have a sole operator model overseen by the state lottery with a meaningful share of revenue. This is similar to the District, however, neither New Hampshire nor Rhode Island have private operators competing with their government operated sports wagering platforms within their jurisdictions. While the success of the operator model in the District continues to be questioned due to the high expectations that were set in 2018, this data supports OLG as the sole operator of mobile and online sports wagering. Our experience disputes the contention that a competitive market open to multiple licenses is required to maximize revenue. On the contrary, the data confirms that a sole operator model that provides a larger share of profits is the most effective model for bringing revenue to the District. The ability of *GambetDC* to have such strong growth in a highly competitive environment within its jurisdiction's borders makes *GambetDC's* growth even more impressive.

The continued expansion of sports wagering along with upcoming initiatives provide a strong foundation for the future of both lottery and sports wagering in the District. I am excited for what is to come in the remainder of Fiscal Year 2023 and look forward to the opportunity to drive 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 the 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.

Mobile/Online Sports Wagering Jurisdictions - Transfer/Tax Revenue (October 2021 - September 2022)

	Jurisdiction	Handle	Transfer/Tax Revenue		Population	Transfer/Tax Revenue per Capita
1	Rhode Island	$524,510,305	51%	$22,530,988	1,095,610	$20.56
2	New Hampshire	$884,207,098	51%	$27,131,559	1,388,992	$19.53
3	New Jersey*	$11,518,209,151	8.5%/13%	$98,822,066	9,267,130	$10.66
4	Pennsylvania	$7,198,464,728	36%	$129,316,970	12,964,056	$9.98
5	Illinois	$9,073,548,513	15%	$109,694,587	12,671,469	$8.66
6	Tennessee	$3,648,108,009	20%	$55,231,170	6,975,218	$7.92
7	Washington DC**	$218,334,942	10%	$4,156,042	670,050	$6.20
8	Indiana	$4,525,723,276	9.50%	$34,058,282	6,805,985	$5.00
9	Virginia	$4,621,568,703	15%	$37,708,076	8,642,274	$4.36
10	Iowa	$2,466,517,027	6.75%	$11,643,146	3,193,079	$3.65
11	Colorado	$5,012,790,490	10%	$16,137,392	5,812,069	$2.78
12	West Virginia	$601,269,116	10%	$3,997,714	1,782,959	$2.24
13	Michigan	$4,829,531,347	8%	$13,112,397	10,050,811	$1.30

New Jersey is a unique jurisdiction with Atlantic City as a major gambling/sports betting center similar to Nevada. The tax rate is 8.5% for retailer and 13% for mobile/online.

* *Washington DC includes both privately operated sports betting and GambetDC.*

Tax revenue numbers do not account for costs associated with regulation and oversight.

Source for Handle and Tax Revenue data: https://www.legalsportsreport.com/sports-betting/revenue/.

Source for 2021 Population Estimates: https://www.census.gov/data/datasets/time-series/demo/popest/2020s-state-total.html#par_textimage_500989927.