

**PUBLIC OVERSIGHT HEARING ON
THE FISCAL YEAR 2023 AND 2024 PERFORMANCE OVERSIGHT**

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

The Honorable Kenyan R. McDuffie, Chairman

February 14, 2024, 9:30 a.m.



**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 2023 and 2024. Joining me today are my colleagues Ridgely Bennett, Chief Counsel for OLG, Craig Lindsey, Agency Fiscal Officer, and Peter Alvarado, Director of Regulation and Oversight.

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 OLG's inception in 1982, OLG has generated more than \$8.4 billion in ticket sales and transferred more than \$2.3 billion in net profit to the District's General Fund. Players have won \$4.6 billion in prizes and our network of licensed retailers has earned approximately \$489.3 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 \$137.3 million in support of their important causes by licensing charitable gaming events and fundraising activities.

Although the pandemic has officially ended, its impact lingers, as the District and its retailers continue to grapple with the consequences of a diminished commuter base. OLG continues to work to mitigate the impact of lost commuter traffic in its core retail trade categories

of convenience and grocery. In Fiscal Year 2023, OLG sales for both lottery and sports wagering totaled \$289.6 million, as compared to \$274.5 million in Fiscal Year 2022, and \$264.8 million in Fiscal Year 2021. Sales for lottery and sports wagering, combined, increased by \$15.1 million, or 5.5%, year-over-year, while OLG's Fiscal Year 2023 transfer was \$33.5 million, a decrease of \$7.2 million, or 17.8%, below the Fiscal Year 2022 transfer of \$40.7 million. This was largely due to an increase in prize payouts for both lottery and sports wagering. The FY 23 combined payout was 69.8% as compared to 66.1% in FY 22.

Lottery continues to combat a lower commuter base and the ever-increasing gaming and entertainment competition that has become the status quo in the District. Lottery sales in Fiscal Year 2023 totaled \$221 million, up \$4 million or 1.8%, as compared to \$217 million in Fiscal Year 2022. The percentage of winners also increased in Fiscal Year 2023, significantly raising the lottery prize payout to 63.4% as compared to 60.4% in Fiscal Year 2022. The increase in prize payout combined with lower sales of more profitable numbers games resulted in a lottery net transfer of almost \$32.2 million in Fiscal Year 2023, which was \$5.8 million less than the transfer of \$38 million in Fiscal Year 2022.

OLG has maintained a focus on iLottery as it works to overcome the loss of commuters and diminished foot traffic at retail locations. In Fiscal Year 2023, OLG accelerated the launch of our new e-Instant games for iLottery players to every two weeks and added a new third-party e-Instant game provider that expanded the variety of our e-Instant game portfolio and provided players with new game styles. iLottery growth has been exceptionally strong since its launch in December 2020 with more than 48,500 players registered (as of January 30, 2024). iLottery sales were approximately \$30.4 million in Fiscal Year 2023, which was up 44.3%, or \$9.3 million, compared to Fiscal Year 2022. This tremendous growth was primarily driven by e-Instants, which

achieved total sales of \$27.2 million in Fiscal Year 2023. This was an increase of \$8.1 million or 42.4% compared to the prior year.

Retail based instant tickets still present a significant growth opportunity for OLG. Lottery continued with its instant ticket optimization initiatives in Fiscal Year 2023, evaluating and enhancing key variables that impact the life cycle of an instant ticket and its sales. Ticket sizes and prize structures were optimized and new game planning tools were implemented. The number of instant ticket games launched increased from 28 in Fiscal Year 2022 to 37 in Fiscal Year 2023, including the launch of the new \$30 *Ultimate Riches* instant ticket that was uniquely positioned within the DMV area. Instant ticket sales in Fiscal Year 2023 were \$43.1 million, compared to \$43.9 million in Fiscal Year 2022, representing a 1.8% reduction year-over-year.

Nearly every lottery in the country has a game portfolio dominated by instant tickets, however the DC Lottery is unique in the industry as our product mix consists primarily of terminal games with 67.7% of our sales coming from this category. This makes terminal games a key determinant of the Lottery's overall sales growth. In Fiscal Year 2023, terminal game sales totaled \$150.9 million, which amounted to a year-over-year decrease of \$3.1 million, or 2.0%, compared to Fiscal Year 2022 sales of \$154.0 million. This was primarily due to a continued decline in our numbers games (*DC 2, DC 3, DC 4, and DC 5*), which decreased \$7.3 million or 6.4% compared to Fiscal Year 2022. On the other hand, our three multi-state games, *Powerball, Mega Millions, and Lucky for Life*, experienced strong sales growth in Fiscal Year 2023, achieving \$22.1 million in sales, which is an increase of 33.4%, or \$5.5 million. This was primarily a result of higher jackpot levels, such as the first ever \$2 billion jackpot in the country. Lottery prize payout in Fiscal Year 2023 increased to 63.4%. Lottery's large reliance on terminal games results in short-term, difficult-to-predict swings in payout due to the randomness of wins, which is a natural aspect of

most terminal games. In addition, Lottery continued to experience a high level of growth in lower margin e-Instant games, which grew 42.4% in sales in Fiscal Year 2023 but have an average payout of approximately 90%.

OLG's retail partners have been challenged by the lack of retail traffic from both commuters and flavored cigarette customers. This has made it difficult to maintain and grow OLG's retailer base. As a matter of fact, OLG's retailer network has had a net decline from 354 retailers at the start of Fiscal Year 2023 to 334 at the end of the fiscal year, which equates to a loss of \$1.9 million in Lottery sales. The lack of traffic and loss of retailers, combined with significantly lower jackpot amounts, has continued to negatively impact sales in Fiscal Year 2024. Lottery sales year-to-date in Fiscal Year 2024 (as of December 31, 2023) are \$51.4 million, which is down \$4.8 million, or 8.5%, compared to \$56.2 million in Fiscal Year 2023. Lottery's Fiscal Year 2024 year-to-date transfer (as of December 31, 2023) is \$10.9 million, which is \$943,208, or 8.0%, less than Fiscal Year 2023's transfer of \$11.8 million through the same period. The year-to-date Fiscal Year 2024 decrease in transfer is primarily the consequence of lower overall sales compared to the same period in Fiscal Year 2023.

Fiscal Year 2024 year-to-date (as of December 31, 2023) terminal game sales are \$34.1 million, compared to \$39.8 million through the same period last year. OLG's terminal game sales decreased by \$5.7 million or 14.3% compared to last year. A lack of significant jackpot amounts for both multi-state jackpot games (*Powerball* and *Mega Millions*) have resulted in a decline of \$2.1 million or 34.1% compared to Fiscal Year 2023. *Powerball's* jackpot reached \$2 billion for the November 7, 2022 drawing, which was the first \$2 billion jackpot ever in the United States. Numbers games sales year-to-date in Fiscal Year 2024 are \$24.6 million, which is \$2.8 million lower than the same period in Fiscal Year 2023. Fiscal Year 2024 year-to-date instant ticket sales

are \$9.7 million, compared to \$10.3 million through the same period last year. Instant ticket sales have decreased by \$635,686 or 6.0%. However, iLottery continues to experience incredible growth with e-Instants achieving \$7.6 million in sales year-to-date in Fiscal Year 2024, which is up 26.3% compared to the same period last year.

While the remainder of Fiscal Year 2024 will be challenging for Lottery as we work to rebuild our retailer network and overcome continued lower jackpot levels, OLG is committed to reversing the declining trends and driving renewed sales growth. In January 2024, Lottery completed its implementation of cashless transaction devices and began accepting debit cards at all Lottery self-service kiosks. This will increase the accessibility of Lottery and attract potential players that may not typically carry cash. We have enlisted the assistance of industry experts to optimize our Lottery retailer recruitment and relationship management processes. This includes sales coordinator training as well as the implementation of a new retailer recruitment strategy with the goal of expanding the retailer network to 360 locations by the end of the fiscal year. To further assist in this effort, Lottery sales coordinators were recently given a new sales tracking tool to help better prepare for retailer visits, optimize route planning, and track retailer performance. This spring, 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.

Lottery will launch 36 new instant tickets this fiscal year, including the recent launch of a the new \$30 300X instant ticket in January. We have increased the number of game promotions and second chance drawings to drive increased engagement with players and sales of terminal games. We continue to leverage our new third-party e-Instant game providers to expand the variety of our e-Instant game portfolio and provide players with new game styles every two weeks. A new

multi-jurisdictional jackpot game will be added to our Fast Play portfolio at the end of the summer, providing players the chance to win large jackpots instantly.

Sports wagering in the District has been challenged by strong competition outside of its borders. In Fiscal Year 2023, private sports wagering operators obtained about 1.7 million wagers, down 23% compared to Fiscal Year 2022, totaling approximately \$116 million in handle (or dollar amount of wagers placed), which was down 27%. Tax revenue from private operators was also down compared to the prior year, totaling almost \$1.4 million, down \$58,841 or 4.1% compared to the prior fiscal year. Note that private sports wagering declined in Fiscal Year 2023 despite the approval and opening of a new Class B license for the Over Under Sportsbook in December 2022.

Private sports wagering operators have had 422,156 wagers placed year-to-date in Fiscal Year 2024 (as of December 31, 2023) resulting in approximately \$31.5 million in handle. This is a decrease in handle of almost \$12.8 million or 29% compared to the same period in Fiscal Year 2023. Tax revenue from private sports wagering has also continued to decrease year-to-date by \$187,773, totaling \$380,854 in tax revenue, which is a decrease of 33%. Much of this decline can be attributed to the Class A operators, which account for 95% of the decline in tax revenue. Although competition remains strong, the expansion of retail sportsbooks in the District is expected to continue. Three companies have started Class B applications, and it is likely that all three will complete their respective applications soon.

GambetDC, the District-operated sportsbook, was able to drive growth overall in Fiscal Year 2023. *GambetDC* surpassed private operators wager and handle growth rates, becoming the largest sportsbook in the District in Fiscal Year 2023 in terms of handle. Almost 2.2 million wagers totaling about \$69.6 million were placed via *GambetDC* in Fiscal Year 2023, that is a growth rate of 12% for wagers and 19% for handle respectively compared to Fiscal Year 2022. A key driver

of *GambetDC's* growth was the launch of its new mobile app with a significantly enhanced user interface combined with a new, more effective brand marketing campaign. *GambetDC* provided a net transfer to the District in Fiscal Year 2023 of almost \$1.3 million, which is about \$1.5 million lower than Fiscal Year 2022. This was primarily due to increased payouts and operational costs, such as retailer commissions, combined with a significant decrease in revenue from infraction fees.

The ongoing, intense competitive sports wagering environment in the DMV area has not only impacted private operators but has also now made it difficult for *GambetDC* to sustain its growth into Fiscal Year 2024 (as of December 31, 2023). *GambetDC* has had 572,840 wagers placed, equaling approximately \$17.3 million in handle, which is a decrease of 15.4% in handle compared to the same period in Fiscal Year 2023. As of December 31, 2023, *GambetDC* has transferred an estimated \$689,208, compared to \$696,000 for the same period last year, representing a slight \$6,792 or 1% decrease in Fiscal Year 2024.

While *GambetDC* may be experiencing a decline, *GambetDC's* year-to-date transfer in Fiscal Year 2024 is still 45% higher than all privately operated sports wagering tax revenue combined. This reiterates OLG's belief that maintaining a District-operated sportsbook as the sole mobile and online operator best accomplishes its mission of maximizing revenue because it provides a larger share of sports wagering revenue while mitigating risk. In Fiscal Year 2023, there were four instances where a Class A or Class B operator did not provide monthly tax revenue due to a zero or negative GGR (Gross Gaming Revenue) for that month.

OLG recognizes that the decline in *GambetDC* revenue must be reversed. Accordingly, OLG has worked with its vendor partner, Intralot, to identify a new subcontractor for OLG's sports wagering platform. OLG and Intralot have evaluated the current platform and believe that evolving to one of the current private operator platforms will help OLG better compete within the highly

competitive DMV region, while still maintaining a larger share of revenue and mitigating risk. Having a top performing, nationally recognized platform will help to quickly reverse the current trend and drive renewed revenue growth.

Growth-focused initiatives combined with the implementation of a player preferred sports wagering platform will provide strong momentum for both lottery and sports wagering in the District. I am enthusiastic about what is to come in the remainder of Fiscal Year 2024 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.