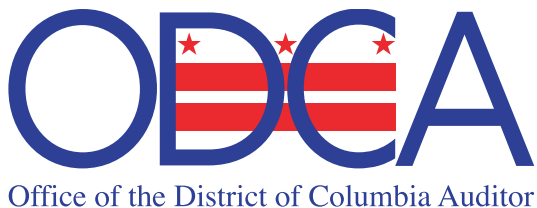

D.C. Sports Gambling Fails to Meet Expectations

September 9, 2021

A report by the Office of the District of Columbia Auditor



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Executive Summary

Why ODCA Did This Audit

ODCA is mandated by D.C. Code § 36–621.11(f)(3), to prepare a study evaluating the performance of sports wagering to determine the level of District revenue generated by mobile and online gaming compared to similar jurisdictions.

What ODCA Found

- The Office of Lottery and Gaming (OLG) operates GambetDC and regulates the private sportsbook William Hill, located at the Capital One Arena. Delays in establishing GambetDC retail locations adversely affected the platform's performance. The William Hill sportsbook retail location earned more sports wagering revenue than GambetDC, which only offered betting through the GambetDC mobile app during our review.
- In comparison with four states that operate sports wagering, the District allocates 42.5% of gross gaming revenue (GGR) to Intralot. This amount is more favorable to the District than the 49% share of GGR allocated to contractors in support of the respective sports betting platforms in New Hampshire and Rhode Island. Montana also partners with Intralot and distributes only 40% of its GGR.
- The District also pays "other direct operating costs" such as marketing and advertising incurred by the contractor (Intralot) from the District's share of GGR. After paying Intralot their 42.5% share of GGR which totaled more than \$2.34 million, OLG paid an additional \$1.58 million in other direct operating costs incurred by Intralot from May 2020 to March 2021.

- Despite having the smallest total handle (amount wagered) during the review period, GambetDC has the highest GGR margin percentage compared to other states. Although a higher GGR margin would mean that GambetDC retains a larger percentage of wagers, lower GGR margins may incentivize more bets, resulting in more revenue.
- Looking at states that also serve as regulators of sports wagering, the District and Colorado have enacted a 10% tax on privately sponsored sportsbooks GGR. Illinois has a tax rate of 15% of GGR.
- The reduced commuter population due to COVID-19 adversely affected GambetDC's performance during our review as major sporting events were cancelled or postponed.

Steps D.C. Could Consider to Enhance Revenue

- Building out a GambetDC retail network to increase revenue as authorized by the legislation.
- OLG granting operator licenses to additional privately sponsored sportsbooks to enhance revenue as also authorized by legislation.
- Increasing the 10% tax rate on GGR to enhance total revenue.
- Negotiating terms to eliminate OLG's obligation to cover Intralot's other operating expenses.
- Increasing payouts to further incentivize bettors to place bets with GambetDC and potentially increase overall revenue.
- Improving the GambetDC app's user experience and resolving technical issues experienced by users to attract additional bettors.

Background

The Sports Wagering Lottery Amendment Act of 2018 took effect on May 3, 2019.¹ This law legalized sports wagering in the District and designated the Office of Lottery and Gaming (OLG) as both regulator and operator of sports wagering. Sports wagers can now be placed online, through mobile device applications (apps), and at retail locations in the District.

OLG, under the Office of the Chief Financial Officer (OCFO) serves as the regulatory body that oversees sports wagering within the District by adopting rules and regulations that govern sports wagering. These rules include establishing policies and procedures that provide protections for sports bettors.² OLG also regulates privately-operated sports wagering by granting licenses to operators and by monitoring gaming operations for compliance with District and federal law.

Privately sponsored operators are required to obtain operator licenses to offer sports wagering in the District. The District issues two types of private operating licenses: Class A and Class B. The more expensive Class A licenses are issued for retail locations located within the District's various sports venues. These locations, as defined by law, include the Capitol One Arena, Audi Field, Nationals Park, and St. Elizabeths East Entertainment and Sports Arena. Class A operators can also accept wagers through mobile apps within two blocks surrounding the retail location.

Alternatively, Class B operator licenses can be granted to retailers throughout the District. However, Class B operators cannot be located within two blocks of Class A facilities. All wagers with Class B operators must be placed within the Class B retail location.³

During the scope of our review, the William Hill Sportsbook was the sole licensed Class A operator within the District⁴, and there were no Class B operators. In partnership with Monumental Sports & Entertainment and Caesars Entertainment, the William Hill Sportsbook opened a retail location at the Capital One Arena on August 3, 2020. In addition to operator license fees, the District also collects a 10% tax on operators' monthly gross gaming revenue (GGR).⁵

In addition to regulating privately operated sports wagering sportsbooks, the Sports Wagering Act also permits OLG to be an operator itself and conduct mobile app, online, and retail (i.e., in-person) sports wagering.

Following approval by the D.C. Council on July 16, 2019, OLG negotiated the terms on a sole source contract with Intralot to develop the District's sports wagering platform. Agreed upon terms include a provision that costs associated with providing this platform would not exceed \$215 million. In turn, Intralot Inc developed GambetDC, the District's sports wagering platform that allows users to place bets

¹ Sports Wagering Lottery Amendment Act of 2018, D.C. Law L22-312, Effective from May 3, 2019.

² D.C. Code § 36-621.02.

³ D.C. Code § 36-621.06.

⁴ OLG has issued another Class A license to BetMGM located at Nationals Park in June of 2021.

⁵ D.C. Code § 36-621.15.

throughout the city.⁶ During our review, OLG had not yet opened any GambetDC retail locations. The only physical location for bettors to place wagers within the District during the scope of this review, was through the privately sponsored William Hill Sportsbook retail location at the Capital One Arena.⁷

⁶ GambetDC users are not able to place wagers within a two-block radius of Class A facilities.

⁷ Through the audit period, GambetDC revenue was generated solely from online and mobile wagers.

Objective, Scope, and Methodology

Objectives

The objective of this review was to compare the amount of revenue generated by sports wagering for the District to that of similar jurisdictions in accordance with D.C. Code § 36–621.11 (f)(3):

DC Code § 36–621.11(f)(3) Twenty-four months after May 3, 2019, the Office of the District of Columbia Auditor shall prepare a study evaluating the performance of the sports wagering instituted by this subchapter to determine the level of District revenue generated by mobile and online gaming compared to other similarly situated jurisdictions and submit the completed study to the Mayor and Council.

Scope

The scope of this review was May 1, 2020 to March 31, 2021.

Methodology

To conduct this review, we selected five similar jurisdictions for comparison to GambetDC, District’s mobile and online sports wagering platform:

- Rhode Island
- Montana
- New Hampshire
- Illinois
- Colorado

To select similar jurisdictions, ODCA first narrowed the list of states offering sports wagering to only include states that allowed sports wagering on mobile and online platforms, due to the District’s delay in developing a network of licensed retail locations. This allowed ODCA to compare selected states’ online and mobile app performance to GambetDC. Reported data for Montana, Rhode Island, New Hampshire, Colorado, and Illinois reflects results of only mobile sports wagering. Additional revenue has been generated for each of the selected states through in-person wagering but is not discussed for comparison’s sake.

Next, ODCA considered the following factors during the selection process:

- The state’s population.
- The date mobile and online sports wagering was initiated.
- Whether states operated their own sports betting mobile application.

Figure 1 shows the District and the states that ODCA selected.

Figure 1: District of Columbia and States Selected for Comparison

Jurisdiction	Types of Wagering Currently Operating with State	Population	Sports Wagering Launch Date	Operator/Regulator
District of Columbia	In-person retail and mobile statewide	689,545	28–May-20	Operator and Regulator
Rhode Island	In-person retail and mobile statewide	1,097,379	26–Nov-18	Operator
New Hampshire	In-person retail and mobile statewide	1,377,529	30–Dec-19	Operator
Illinois	In-person retail and mobile statewide	12,812,508	18–Jun-20	Regulator
Montana	Mobile within Boundary restrictions	1,084,225	Week of 3/9/2020	Operator
Colorado	In-person retail and mobile statewide	5,773,714	1–May-20	Regulator

Rhode Island, New Hampshire, and Montana were selected because they had populations most similar to the District's. Illinois and Colorado were selected for having an online sports betting launch date near the District's launch date of May 28, 2020.

ODCA interviewed the District's Office of Lottery and Gaming (OLG) staff and corresponded with Lottery staff from the comparison states. ODCA also conducted a detailed review of monthly mobile and online sports wagering revenue data for each state. Additionally, ODCA reviewed relevant laws and regulations to understand the structure of sports wagering in each state including review of operator contracts where available.

To compare revenue generated by each state, ODCA used Gross Gaming Revenue (GGR) a key metric used by the gaming industry to measure performance. GGR is the difference between the amount of money players wager (i.e., the handle), minus the amount that they win (i.e., payouts). The equation is this: *handle minus payouts equals GGR*.

Audit Results

GambetDC Sports Betting Mobile App

As the operator of GambetDC, OLG's contractual agreement with Intralot to manage the GambetDC app mandates a 42.5% share of GGR, plus payment for "other direct operating costs".

OLG calculates GGR by subtracting GambetDC payouts from total stakes. Total stakes is the amount wagered by bettors, plus GambetDC bonuses issued for promotional purposes. GambetDC bonuses are credited to user accounts to encourage further betting. More than \$1.1 million in bonuses were issued to bettors for promotional purposes during the period. The \$1.1 million in bonuses is factored into Intralot's 42.5% share of GGR which totaled \$2,436,076 between May 2020 and March of 2021.

OLG also agreed to cover other direct operating costs related to the operation of sports betting incurred by Intralot and that fall outside Intralot's contractual responsibilities. Examples of other direct operating costs include bonuses and promotions for bettors, streaming fees, and marketing activities. These costs, which are paid by OLG to Intralot, were more than \$1.58 million.

Figure 2: Intralot Expenses (in thousands) May 28, 2020–March 2020

Intralot Expenses	
Intralot % of GGR (42.5%)	\$ (2,346.00)
Intralot Other Direct Operating Costs	\$ (1,588.00)
Total Intralot Expenses	\$ (3,934.00)

D.C. General Fund Transfer

Between the launch of GambetDC on May 28, 2020, and the end of March 2021, bettors placed \$30.6 million in online and mobile wagers. GambetDC paid out more than \$26.2 million in winnings during the same period. As a result, \$4.37 million remained. This amount is referred to as Net Gaming Revenue (NGR). Unlike GGR, NGR does not include bonuses since these are credits issued by OLG and do not represent actual revenue received from bettors. The \$4.37 million in NGR was further reduced by Intralot expenses totaling more than \$3.93 million (see Figure 2 above). The remaining \$444,398 in sports wagering revenue was transferred to the D.C. General Fund.

Figure 3: D.C. General Fund Transfer from GambetDC (in thousands) May 28, 2020–March 2021

Handle	GambetDC Payout	NGR ⁸	Total Intralot Expenses	General Fund Transfer
\$30,600	\$ (26,222)	\$4,378	\$ (3,934)	\$444

Source: OLG

William Hill Sportsbooks

Through the audit period, the William Hill Sportsbook was the lone privately operated sportsbook and thus the lone competitor to GambetDC in the District. The William Hill Sportsbook at the Capital One Arena officially opened on August 3, 2020, and William Hill launched its mobile sports app in December 2020. As an approved Class A sports wagering facility, the William Hill Sportsbook allowed bettors to place wagers in its physical retail facility at the Capital One Arena. Bettors are also allowed to place wagers within two blocks of this location through the William Hill sportsbook mobile app.⁹

Between its August 3, 2020, launch and March of 2021, more than \$94.9 million in bets were placed through the William Hill Sportsbook; \$88.9 million in bets were placed at its Capital One Arena retail location and \$6 million in bets were placed through the William Hill mobile app.

In terms of GGR, the William Hill sportsbook retail location netted over \$13.2 million within the review period, while mobile app earned \$731,000. This resulted in a total of more than \$13.9 million in GGR as shown in Figure 4. The District was entitled to 10% of William Hill's GGR equaling \$1,385,675.54 in tax revenue between August 3, 2020, and March 2021.¹⁰

**Figure 4: William Hill Sportsbook Handle, GGR, and Tax Revenue (in thousands)
August 3, 2020–March 31, 2021**

	Retail Location	Mobile App	Total
Handle	\$88,849	\$6,092	\$94,941
GGR	\$13,125	\$731	\$13,856
Tax Revenue	\$1,312	\$73	\$1,385

Source: OLG

⁸ Total stakes – Bonuses – GambetDC Payout = NGR

⁹ D.C. Code § 36-621.06(e) permits Class A operators to apply to operate sports wagering conducted over the internet, through mobile applications, or through other digital forms, but not through a physical location, outside of the physical confines of its approved sports wagering facility, within 2 blocks of its designated facility; provided, that the sports wagering conducted by a Class A operator over the internet, through mobile applications, or through other digital forms may not function within the physical confines of a different Class A operator's designated facility.

¹⁰ In accordance with DC Code § 36-621.15 an operator shall pay the District 10% of their gross sports wagering revenue.

The retail location for William Hill generated vastly more GGR, and thus tax revenue, than its mobile app, even when taking into account that the app launched 4 months later. This suggests the importance of having retail locations; bettors appear to prefer placing traditional in-person wagers instead of through the mobile apps.

GambetDC and William Hill Comparison

William Hill generated more GGR than GambetDC between May 2020 and March 2021, as shown in Figure 5.

Figure 5: Total Gross Gaming Revenue (GGR) Generated in District Since Inception of Sports Wagering May 2020–March 2021

	GambetDC GGR	William Hill Retail GGR	William Hill Mobile App GGR
May-20	(922.00)		
Jun-20	30,885.95		
Jul-20	128,950.63	1,739.95	
Aug-20	258,200.37	1,425,274.70	
Sep-20	417,309.25	1,305,402.56	
Oct-20	767,164.60	2,717,767.60	
Nov-20	882,670.09	2,728,521.75	
Dec-20	807,216.41	1,833,265.73	68,170.71
Jan-21	913,384.35	1,531,451.17	360,657.18
Feb-21	596,045.90	552,587.48	180,126.47
Mar-21	715,244.13	1,029,250.11	122,539.86
Total	5,516,149.68	13,125,261.05	731,494.22¹¹

The District was set to receive \$1.83 million in revenue generated as a result of sports wagering within the District. William Hill's larger GGR translated to nearly \$1.4 million dollars in sports revenue for the District whereas GambetDC only generated \$444,000, despite being launched two months prior.

¹¹ William Hill GGR amounts taxed by the District at 10% rate.

Figure 6: Total Sports Wagering Revenue Generated for the District May 2020–March 2021

GambetDC (in thousands)	William Hill Sportsbook (in thousands)	Total
\$ 444	\$1,386	\$1,830

Comparison to Similar Jurisdictions

Population-Based Comparison: Montana, New Hampshire, and Rhode Island

Montana, New Hampshire, and Rhode Island were selected based on having a population most similar to the District. It is important to note, however, that the District's population is the smallest of the four states as shown in Figure 7.

Figure 7: State Populations

Jurisdiction	Population
District of Columbia	705,749
Rhode Island	1,059,361
Montana	1,068,778
New Hampshire	1,359,711

The District relies on a robust commuter population coming into the city for work and experienced a decrease in commuters with the switch to remote work during the COVID-19 pandemic. This in turn decreased the number of potential bettors, as wagers can only be placed via GambetDC within the District's boundaries.

As well as being relatively small states, Montana, New Hampshire, and Rhode Island also operate their respective sports wagering platforms in partnership with private sportsbooks. Rhode Island partnered with International Game Technology (IGT) and subcontractor William Hill to develop their sportsbook. The District and Montana both worked with Intralot to develop their own online sportsbook, GambetDC and Sports Bet Montana, respectively. However, in Montana, the mobile sports betting application is accessible only within licensed Sports Bet Montana locations.

New Hampshire, which has the highest handle of the comparison states, operates its own sportsbook but partnered with the sportsbook DraftKings to operate online sports wagering.

States that operate sports wagering platforms split revenue at an agreed upon rate with contractors selected to administer sports betting. Montana's agreement allocates 40% of GGR to the contractor which represents the most favorable share of GGR. The District's 42.5% allocation of GGR to Intralot

is the second-best rate of operating states selected for comparison. New Hampshire and Rhode Island have both agreed to distribute 49% of GGR to contractors for operating their respective sports wagering platforms.

The District also agreed to contract terms that cover other direct operating costs such as marketing and advertising by deducting from the District's share of GGR. We reviewed state statutes in each state and operator contracts in Montana and New Hampshire. Rhode Island law permits deduction of marketing costs and some fees prior to dividing revenue between the state and contractor as indicated in Figure 8. Montana, and New Hampshire contracts do not require reimbursement of contractor operating funds.

Figure 8: Operating Structure of Comparison States

State	Jurisdictions Revenue Percentage	Contractor Revenue Percentage
District of Columbia	57.5% of Gross Gaming Revenue minus other direct operating costs incurred by the contractor (Intralot).	42.5% of Gross Gaming Revenue plus other direct operating costs
Rhode Island	51% of sports wagering revenue is allocated to the state.	32% of sports wagering revenue is allocated to the authorized vendor. 17% is allocated to the host facilities.
New Hampshire	The New Hampshire Lottery receives 51% of all Gross Gaming Revenue generated from the online platform within the state.	49% of all Gross Gaming Revenue generated from the online platform within the state.
Montana	60% percent of GGR for the Lottery's compensation.	40% percent of GGR for the Contractor's compensation.

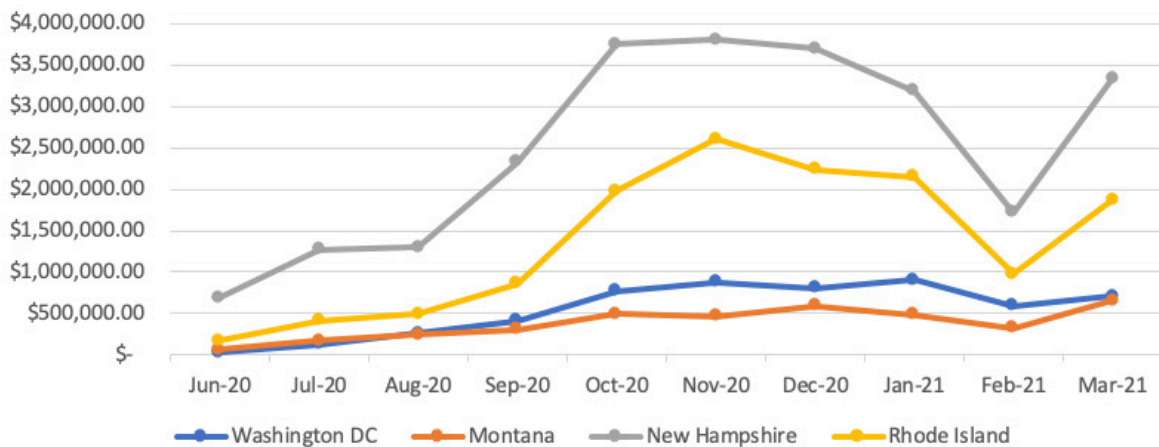
In terms of overall handle, the District had the smallest total mobile handle of the four states. Specifically, since GambetDC's May 28, 2020 launch, the District has handled over \$31.7 million dollars in mobile sports bets. Montana, which also contracts with Intralot, handled a similar amount in mobile bets with a \$32.2 million handle. New Hampshire and Rhode Island's handles totaled \$349.5 million and \$142.8 million respectively. Rhode Island has approximately 50% more residents than the District, while New Hampshire's population is nearly double. However, the increase in total handle is not proportional to the difference in population. For example, despite having nearly twice the number of residents, New Hampshire's total handle during the review period is more than 10 times that of the District.

Figure 9: Total Handle (Mobile) of Comparison States

Jurisdiction	Total Handle	Population
DC	\$31,722,271	705,749
MT	\$32,169,883	1,068,778
RI	\$142,884,827	1,059,361
NH	\$349,536,300	1,359,711

ODCA did find that the monthly changes in GGR within the District followed a similar pattern to the three other states as seen in Figure 10. However, the increase in GGRs is more modest in the District and in Montana than in Rhode Island and New Hampshire.

Figure 10: GGR for Jurisdictions with Similar Population



The low initial GGRs across states can be attributed at least in part to the cancellation or postponement of major sporting events due to the COVID-19 pandemic. For example, the National Basketball Association (NBA) resumed play in late July 2020 after postponing its season due to COVID-related health and safety concerns. Similarly, the Major League Baseball (MLB) season was delayed from its usual March start, to late July 2020.

Overall, states selected for comparison experienced significant increases in GGR as sports resumed or began play. However, the District and Montana did not experience as significant a spike in bets when the National Football League (NFL) began play in September 2020 as New Hampshire and Rhode Island.

Similar Launch Date Comparison: Illinois and Colorado

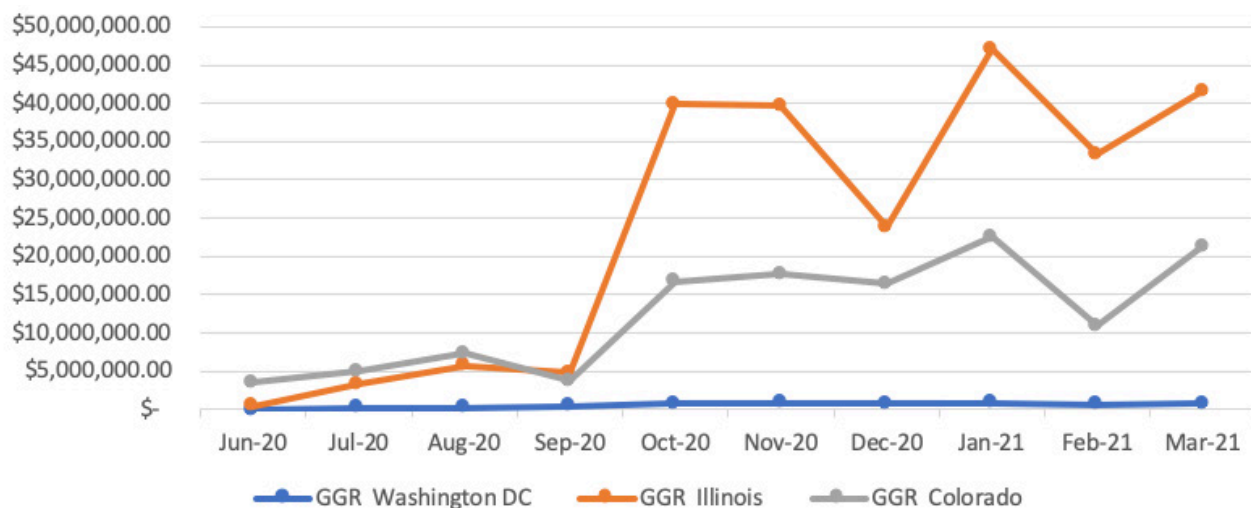
Illinois and Colorado were selected for comparison for accepting initial sports wagers within the same period as the District. Specifically, Illinois's start date was June 18, 2020, Colorado on May 1, 2020, while

GambetDC was introduced on May 28, 2020.

Illinois and Colorado regulate multiple online licensed sportsbooks including DraftKings, BetMGM, BetRivers, FanDuel, and the William Hill Sportsbook. As a result, bettors are provided with numerous options to place wagers on sports online or through mobile apps throughout the state. In comparison, the District approved sports wagering through the lone privately sponsored sportsbook that applied, the William Hill Sportsbook. However, customers must be within two blocks of the William Hill facility to place mobile sports bets.

In comparing the performance of GambetDC to Colorado and Illinois mobile sports offerings, the District's revenue remained mostly flat, while Illinois and Colorado experienced substantial increases in mobile GGR between September 2020 through October 2020 as displayed in Figure 11. This spike may be attributed to the start of the NCAA and NFL football seasons. Additional revenue was also generated through parlay bets¹² placed in conjunction with the start of the NFL season. The District's performance remained flat and did not show similar growth as the sporting seasons resumed.

Figure 11: GGR for Jurisdictions with similar launch date: D.C., Colorado, and Illinois



It may be beneficial for D.C. to attract more private sportsbooks like Illinois and Colorado in order to increase GGR. However, it is difficult to make a conclusive comparison as these states have a much larger population than the District as reflected in Figure above.

¹² Parlay bets are defined as a single sports wager that involves two or more bets combined into one.

Figure 12: Total Handle (Mobile)

Jurisdictions	Total Handle
D.C.	\$37,814,408.11 ¹³
Colorado	\$2,039,450,373.25
Illinois	\$3,460,887,961.65

ODCA reviewed user comments on the iOS app store and noted that the GambetDC app received poor ratings by users. The app faced functionality and technical issues including financial institutions declining to process transactions and confusion about geographic restrictions for placing wagers.¹⁴ This further hampered GambetDC's performance in comparison to Illinois and Colorado. Both states have agreements on terms with privately sponsored sportsbooks.

Regulators - Sports Wagering Tax

Like Illinois and Colorado, the District also regulates privately sponsored sportsbooks such as the William Hill Sports book, thus receiving a percentage of sports wagering revenue at a rate determined by the state. The District and Colorado currently tax private sports wagering operators at 10% of the gross sports wagering revenue whereas Illinois taxes at a higher tax rate of 15%.

Figure 13: State Tax Share for States that Regulate Privately Operated Wagering

State	State Tax Share	
Illinois	15%	A 15% tax is imposed on sports wagering licensee's adjusted gross sports wagering receipts from sports wagering. Adjusted gross sports wagering receipts" means a master sports wagering licensee's gross sports wagering receipts, less winnings paid to wagers in such games.
Colorado	10%	Sports-betting activity is taxed at the rate of 10% of net sports betting proceeds.
District of Columbia	10%	10% tax of sports wagering revenue for licensed operators. (William Hill Sportsbook)

¹³ This amount encompasses \$31,722,270.73 and \$6,092,137.38 in mobile sports wagers placed through GambetDC and the William Hill sportsbook respectively.

¹⁴ After 284 reviews, GambetDC has an average rating of 1.5 out of 5 in the iOS app store as of August 3, 2021.

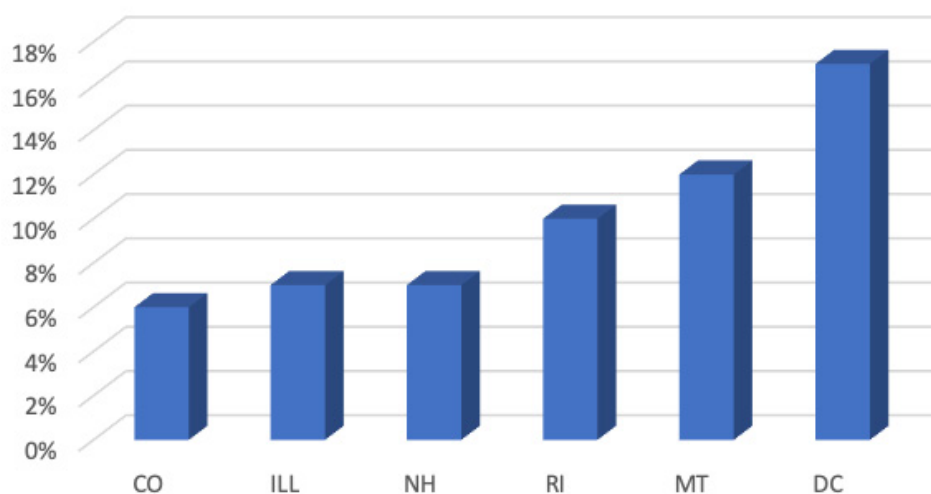
Mobile Gross Gaming Revenue Margin Comparison– All Jurisdictions

Finally, ODCA calculated the mobile Gross Gaming Revenue (GGR) Margin¹⁵ for all states selected for comparison as depicted in Figure 14. This indicator gauges the degree to which the jurisdictions retain handle after payouts.

The District's GGR Margin outpaced all comparative states by retaining 17% of sports wagers while Montana's 12% margin was second. Rhode Island's 10% margin was the mean of the selected states, while New Hampshire and Illinois retain only 7% of their GGR. Colorado has the smallest GGR margin percentage at 6%.

GambetDC is an outlier in terms of GGR Margin compared to the other states. Although GambetDC currently retains a greater percentage of its handle, the District may benefit from increasing payouts to bettors. This would decrease the District's GGR Margin, but it may further incentivize bettors to use GambetDC if they think they can win more money.

Figure 14: GGR Margin



¹⁵ The GGR Revenue Margin formula is GGR divided by Amount Wagered (Handle)

Conclusion

ODCA recognizes the difficulty of making judgments on the performance of GambetDC due to the unforeseen circumstances attributed to the COVID-19 pandemic. Nevertheless, when compared to both William Hill sportsbook in the District and to results in other states, GambetDC did not perform as well.

Based on the strong William Hill retail experience, ODCA did find that delays in establishing a retail network of GambetDC retail locations has likely adversely impacted the platform's performance to date. Increased emphasis on establishing a GambetDC retail network would likely increase revenue and benefit the District. Additionally, OLG may benefit by granting operator licenses to additional privately sponsored sportsbook. Illinois and Colorado have both contracted with multiple private sportsbooks resulting in substantial gains in bets handled and in GGR.

The District's 10% tax on privately sponsored sportsbooks mirrors the rate enacted by Colorado, while Illinois has a 15% tax on GGR. The District could explore whether increasing the 10% tax rate on GGR would increase revenue while keeping strong privately operated sportsbooks.

The District's 42.5% allocation of GGR to Intralot is the second most favorable rate of the states selected for comparison. Montana's 40% allocation (also with Intralot) is the most favorable rate for a state while Rhode Island and New Hampshire have agreed to share 49% of GGR with contractors. OLG also agreed to pay GambetDC's other direct operating costs. The District could consider negotiating terms that eliminate OLG's obligation to cover contractor operating expenses consistent with agreements in New Hampshire and Montana.

Despite having the lowest total handle, the District has the highest GGR margin of all jurisdictions selected for comparison. The District may benefit from incentivizing betters with improved betting odds. Although the District would retain a smaller share of revenue, improved odds may lead to an increase in bets. Improving the GambetDC app's functionality and technical issues experienced by users could also assist in attracting additional betters to GambetDC.

Sports wagering in the District has the potential to generate revenue similar to that received by other states and OLG should consider options reflected in this report. Overall, the future success of GambetDC will be tied not just to the strength of the District's recovery from the pandemic but also to the steps the OLG takes to increase sports wagering revenue.

Agency Comments

On August 24, 2021, ODCA sent a draft copy of this report to the Office of Lottery and Gaming (OLG) for review and written comment. OLG responded with comments on September 3, 2021. Agency comments are included here in their entirety.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER



Office of Lottery and Gaming

September 3, 2021

The Honorable Kathleen Patterson
District of Columbia Auditor
717 14th St. NW, Suite 900
Washington, DC 20005

Re: District of Columbia Auditor Report—*D.C. Sports Gambling Fails to Meet Expectations*

Dear Ms. Patterson:

The Office of Lottery and Gaming appreciates the opportunity to address the findings and considerations set forth in the *D.C. Sports Gambling Fails to Meet Expectations* report. OLG management generally accepts the assessment of the sports betting landscape in the District with some exceptions that are further detailed in our responses. Despite the initial negative impact of the COVID 19 pandemic on professional sporting events and the number of commuters and tourists that visit the District, significant progress has been made since launching sports wagering in the District. We are excited about the future and developing a robust and lucrative sports betting business that supports the economic vitality of the District.

The scope of this review was May 1, 2020, to March 31, 2021. Since this time, there have been significant enhancements to the sports betting landscape that we have highlighted. Many of these initiatives align with the recommendations outlined in the report.

Sincerely,

Frank Suarez
Executive Director

Attachment

cc: Mr. Gregory Woods, Auditor-in-Charge

D.C. Sports Gambling Fails to Meet Expectations Management’s Responses to the “Steps D.C. Could Consider to Enhance Revenue” Contained in The Report

General Comments

The Office of Lottery and Gaming appreciates the opportunity to address the findings and considerations set forth in the *D.C. Sports Gambling Fails to Meet Expectations* report. OLG management generally accepts the assessment of the sports betting landscape in the District with some exceptions that are further detailed in our responses. Despite the initial negative impact of the COVID 19 pandemic on professional sporting events and the number of commuters and tourists that visit the District, significant progress has been made since launching sports wagering in the District. We are excited about the future and developing a robust and lucrative sports betting business that supports the economic vitality of the District.

The Office of Lottery and Gaming (OLG) is committed to responsibly developing a robust and sustainable sports betting industry in the District. The model allows businesses, both large and small, as well as the District government to participate as operators in this emerging industry. Therefore, inclusion of the mobile and online sports wagering revenue generated by the District, as well as the tax revenue generated via mobile and online by private operators, may provide a more consistent comparison of the District’s overall sports wagering business when evaluated relative to other jurisdictions that also tax private operators, such as Colorado and Illinois.

In addition, we have also addressed each of the Auditor’s considerations below.

ODCA’s Consideration 1

Building out a GambetDC retail network to increase revenue and benefit the District as authorized by the legislation.

OLG’s Response

OLG’s model was created to include a strong retail presence. The goal was to leverage our existing retail network while expanding into new establishments. The COVID 19 pandemic greatly impacted GambetDC’s retail strategy. Our retail program was scheduled to roll out on the heels of the GambetDC mobile app launch on May 28, 2020, but the public health restrictions that led to limited operation and offerings, and in many cases, closure of social settings along with the significant reduction in commuter traffic caused a shift in direction. OLG made a strategic decision to postpone the launch of retail sports betting in favor of developing and launching the iLottery platform which helped to generate needed revenue during the challenging times.

In July 2021, OLG launched its retail sports betting program with self-service kiosks that allow people interested in sports betting the opportunity to place a wager at their favorite local D.C. businesses. The kiosk features a touch screen, live-updating odds, and can link to GambetDC’s app for players who wish to use digital bet slips. Currently, GambetDC kiosks are licensed to operate at Ben’s Next Door, Lou’s City Bar, Takoma Station Tavern, and Dirty Water. Kiosks will continue to be introduced into small business establishments in the District, including restaurants,

bars, and convenience stores. By early 2022, GambetDC wagers will also be available to be placed at point-of-sale terminals similar to lottery online products which will further expand the product offering.

It is important to note that GambetDC retail provides new revenue streams for local business as they recover from the pandemic. The local businesses offering sports betting via GambetDC will receive a boost in revenue resulting from a 5% commission on all sports betting sales and a 1% commission on the cashing of sports betting tickets.

ODCA's Consideration 2

OLG granting operator licenses to additional privately sponsored sportsbooks to enhance revenue as authorized by legislation.

OLG's Response

OLG has issued two Class A Sports Wagering Operator licenses. Additionally, we have issued 11 Sports Wagering Supplier licenses and 58 Sports Wagering Occupational licenses. William Hill's sportsbook at Capital One Arena recently moved from a temporary location inside the box office area of Capital One Arena to its permanent location inside the area formerly occupied by The Green Turtle restaurant. William Hill is also operating a sports wagering mobile app within the surrounding two-block zone. In June 2021, BetMGM launched its sports wagering mobile app within Nationals Park and the surrounding two blocks. BetMGM is expected to open its physical sportsbook at Nationals Park later this summer. FanDuel recently submitted an application to operate a Class A sportsbook at Audi Field. That application is currently under review by OLG's Regulation and Oversight Division.

In addition to the aforementioned Class A locations, OLG has issued a Class B Operator license to Grand Central LLC, 2447 18th Street. NW, Washington DC 20009.

While, overall, the District financially benefits from the programs that the OLG regulates, including privately operated sports wagering, the cost of licensing and ongoing compliance of private operator licensees has a net impact on the OLG's annual transfer to the General Fund. It is important to note that the District collects tax revenue, assessed at 10% of monthly gross gaming revenue (total amount wagered less prizes paid) from private sports wagering operators. OLG's revenue reports do not reflect the private operator tax revenue because those taxes are collected by the Office of Tax and Revenue and are not accounted for on the OLG's financial statements. As of June 30, 2021, the District has collected \$1,571,997 in GGR taxes from private sports wagering operators.

As noted in the report, the cost of regulating far exceeds the licensing fees collected by license applicants. OLG is using GambetDC revenue to make up the shortfall. The licensing fees collected from private operated sports wagering in 2020 and 2021 as of June 2021 were \$2,069,400 while the anticipated hard costs of the program were \$3,680,385. Licensing and regulatory costs will continue to outpace licensing fees collected even after the startup costs for the regulatory program/division are phased out. Licensing fees are set by statute. OLG will continue to monitor

costs and, if warranted, will provide recommendations to Council for their consideration of any necessary modifications.

ODCA's Consideration 3

Increasing the 10% tax rate on GGR to enhance total revenue.

OLG's Response

The 10% tax rate is set by law. The OLG is aware of the tax rates set in other jurisdictions and will provide such information to the Council and Mayor for their consideration of potential changes to the law that would be beneficial to the District.

ODCA's Consideration 4

Negotiating terms to eliminate OLG's obligation to cover the contractor's other direct operating expenses.

OLG's Response

All of the direct costs contained in the contract are necessary for the successful operation of a sportsbook. The OLG is reviewing the contract to determine if those costs should be added to the percentage of GGR paid to the contractor or if the services covered under the direct costs (e.g. advertising) should be transferred to a separate contract. However, because these are required services, incorporating the costs of these services into the percentage of GGR paid to the contractor or moving them to a different contract will not likely increase revenue to the District.

ODCA's Consideration 5

Increasing payouts in order to further incentivize bettors to place bets with GambetDC to increase overall revenue even though it would reduce the District's GGR margin.

OLG's Response

OLG and its vendor continuously review payouts and will make adjustments as required in order to be competitive in the marketplace and to maximize revenue to the District.

ODCA's Consideration 6

Improving the GambetDC apps user experience and resolving technical issues experienced by users to assist in attracting additional bettors to GambetDC

OLG's Response

GambetDC is continually being improved to meet the needs of its customers. Enhancements that have been implemented since March 2021 include the following:

- Update of the registration process
- Introduction of pre-determined parlay wagers section to promote easy parlays
- Log in with the FaceID
- Daily promotions that incentivize play

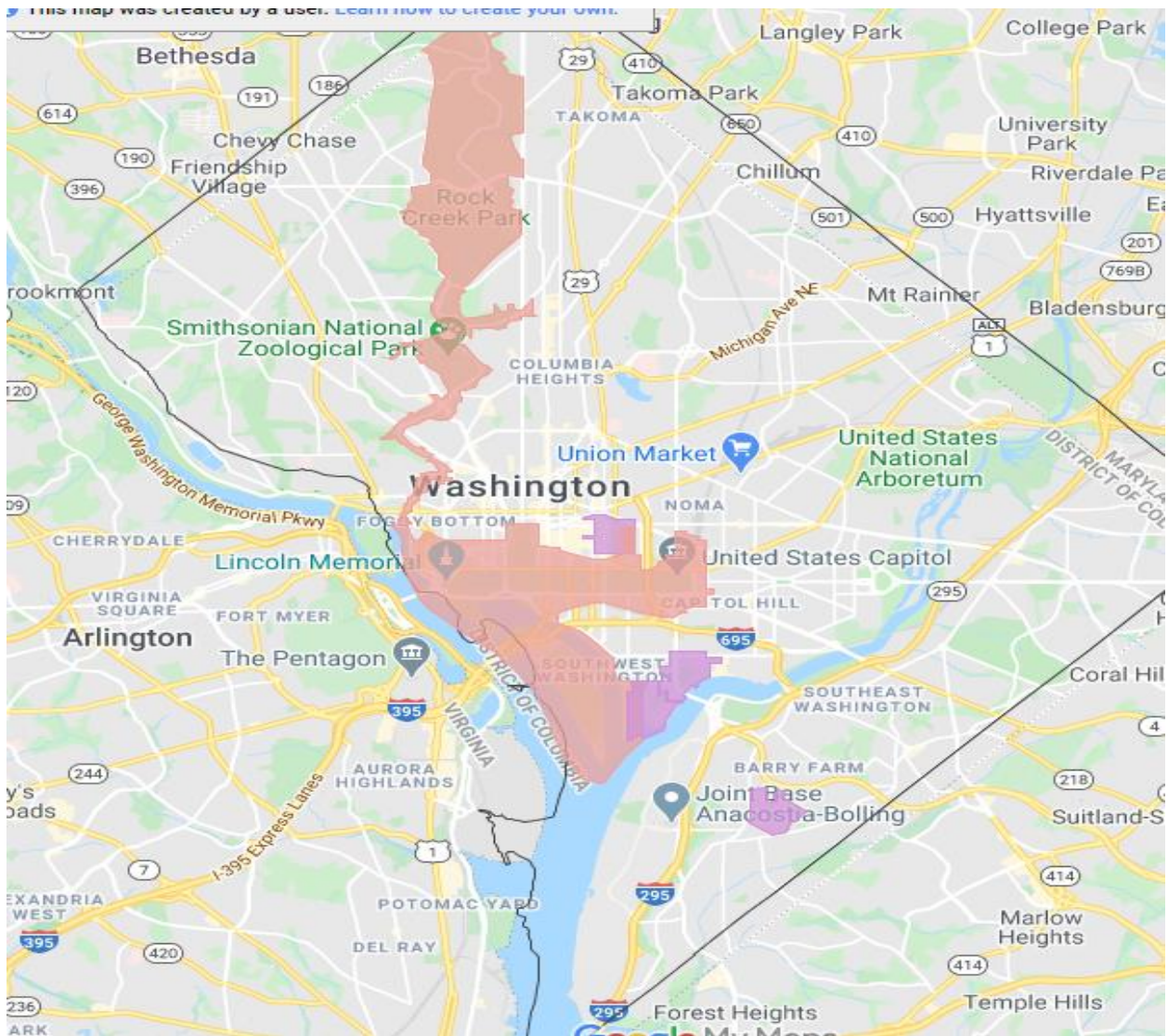
- Ability to locate a GambetDC retailer location without exiting the app
- Inclusion in Google Play store

GambetDC is currently undergoing several key initiatives, including the following:

- Revamp of GambetDC user interface and user experience for easier and faster player navigation
- Betting options enhancements including the introduction of teasers and richer proposition bets
- Evolution of logo and imagery to be more reflective of a sportsbook

Any review of GambetDC must take into account the unique rules, that are specific only to bettors in the District of Columbia due to a long-existing federal law, are likely to be confusing to individuals the first few times they place bets. The appropriations act that established the lottery and its funding source in 1982 also included language that prohibited the advertising and sale of lottery and conducting other forms of gaming within the Federal enclave as geographically defined by the Shipstead-Luce Act. Thirty-nine years later, this prohibition is still in existence, which means that OLG cannot license retailers, sell games, or advertise its games or brand within the monumental and governmental core of the District, along much of the Potomac waterfront, or abutting Rock Creek Park. It should be noted that private sports operators would be subject to the same restriction and would not eliminate consumer frustration. Essentially, OLG and its gaming licensees cannot have any presence in the heart of the District where people go to work, do business, and come to visit.

In addition to the enclave restriction, OLG cannot operate its sports wagering mobile app or license sports wagering retail locations within the 2-blocks surrounding the four designated Class A facilities: Audi Field, Capital One Arena, Nationals Park, and St. Elizabeths East Entertainment Sports Arena. To comply with these restrictions, OLG has instituted buffer zones along the borders of the District and within areas of the District where GambetDC cannot operate. Following is a map of the exclusionary zones:



*Pink is the area covered by the Shipstead-Luce Act. Purple is are the Class A Operator Zones.

These location-based restrictions are complex to navigate both from a player perspective and from an operational standpoint. While all U.S. jurisdictions must comply with the Federal Wire Act, which requires all wagering to remain within the state's jurisdictional boundaries, and can quite easily relay this law's requirement to players/consumers, OLG through in-app pop-up messages and multi-media marketing campaigns must continuously communicate where the "restricted from play" areas are within the District and precisely why the app or website won't allow them to place a wager even though they are physically within the District. The perception is that the GambetDC platform doesn't work when it is working exactly as required by District and federal laws by not allowing wagers to take place within significant areas within the District.

In order to provide players with clearer information, we have refined in-platform pop-up messages received by players to home in on specific geolocation-related issues. We have also launched communications campaigns to educate players on the complex nature of the location-based restrictions.

A second issue players have encountered relates to financial institutions declining to process sports wagering transactions. Because of the relative newness of legalized online sports betting, many financial institutions still will not process legal sports betting transactions. To address this industry wide issue, we've created campaigns to inform players about the restrictions that some banks and credit card providers have on processing gambling-related transactions (that prevent players from using these bank-issued cards to fund account deposits). The addition of multiple payment options has significantly reduced this issue.

Appendix A

Figure 15: Total Gross Gaming Revenue Generated in District Since Inception of Sports Wagering

	GambetDC GGR	William Hill Retail GGR	William Hill Mobile App GGR	
May-20	(922.00)			
Jun-20	30,885.95			
Jul-20	128,950.63	1,739.95		
Aug-20	258,200.37	1,425,274.70		
Sep-20	417,309.25	1,305,402.56		
Oct-20	767,164.60	2,717,767.60		
Nov-20	882,670.09	2,728,521.75		
Dec-20	807,216.41	1,833,265.73	68,170.71	
Jan-21	913,384.35	1,531,451.17	360,657.18	
Feb-21	596,045.90	552,587.48	180,126.47	
Mar-21	715,244.13	1,029,250.11	122,539.86	
Total	5,516,149.68	13,125,261.05	731,494.22	19,372,904.95

Figure 16: GGR for Jurisdictions with Similar Populations

	District of Columbia	Montana	New Hampshire	Rhode Island
Mobile Application Launch Date	5/29/2020	3/9/2020	12/30/2019	11/26/2018
Jun-20	\$30,885.95	\$68,714.00	\$691,103.00	\$169,261.00
Jul-20	\$128,950.63	\$171,000.00	\$1,268,688.00	\$407,471.00
Aug-20	\$258,200.37	\$241,000.00	\$1,299,975.00	\$490,601.00
Sep-20	\$417,309.25	\$303,000.00	\$2,320,266.00	\$855,910.00
Oct-20	\$767,164.60	\$491,000.00	\$3,753,726.00	\$1,987,176.00
Nov-20	\$882,670.09	\$465,000.00	\$3,804,994.00	\$2,605,045.00
Dec-20	\$807,216.41	\$595,000.00	\$3,707,069.00	\$2,231,387.00
Jan-21	\$913,384.35	\$487,000.00	\$3,189,485.00	\$2,144,280.00
Feb-21	\$596,045.90	\$312,000.00	\$1,722,897.00	\$975,735.00
Mar-21	\$715,244.13	\$652,000.00	\$3,341,246.00	\$1,870,680.00
Total	\$5,517,071.68	\$3,785,714.00	\$25,099,449.00	\$13,737,546.00

Figure 17: Mobile App GGR for Jurisdictions with Similar Launch Date

	District of Columbia	Illinois	Colorado
Mobile Application Launch Date	5/29/2020	6/18/2020	5/1/2020
Population	689,545	12,812,508	5,773,714
Jun-20	\$30,885.95	\$368,651.21	\$3,484,014.61
Jul-20	\$128,950.63	\$3,342,852.88	\$5,031,039.09
Aug-20	\$258,200.37	\$5,711,600.58	\$7,275,869.75
Sep-20	\$417,309.25	\$4,801,699.03	\$3,763,074.91
Oct-20	\$767,164.60	\$39,930,062.42	\$16,724,465.66
Nov-20	\$882,670.09	\$39,660,826.78	\$17,649,017.94
Dec-20	\$807,216.41	\$23,775,236.38	\$16,559,673.95
Jan-21	\$913,384.35	\$47,084,905.55	\$22,663,259.39
Feb-21	\$596,045.90	\$33,286,796.64	\$10,992,246.12
Mar-21	\$715,244.13	\$41,653,710.77	\$21,376,862.43
Total	\$5,517,071.68	\$239,616,342.24	\$125,519,523.85

About ODCA

The mission of the Office of the District of Columbia Auditor (ODCA) is to support the Council of the District of Columbia by making sound recommendations that improve the effectiveness, efficiency, and accountability of the District government.

To fulfill our mission, we conduct performance audits, non-audit reviews, and revenue certifications. The residents of the District of Columbia are one of our primary customers and we strive to keep the residents of the District of Columbia informed on how their government is operating and how their tax money is being spent.

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