

**PUBLIC HEARING**

**ON**

**CA 17-405, CONTRACT NO. CFOPD-7-053  
ONLINE GAMING SYSTEM AND REALTED  
SERVICES APPROVAL RESOLUTION OF 2008**

**Before the  
Committee on Finance and Revenue  
Council of the District of Columbia  
The Honorable Jack Evans, Chair**

**April 7, 2008, 10:00a.m.  
Room 120, John A. Wilson Building**



**Testimony of  
Jay Young, ESQ.  
Chief Operating Officer  
D.C. Lottery and Charitable Games Control Board**

**Natwar M. Gandhi  
Chief Financial Officer  
Government of the District of Columbia**

Good morning Chairman Evans, members of the Committee on Finance and Revenue, and staff members. My name is Jeffrey “Jay” Young and I am the Chief Operating Officer for the DC Lottery and Charitable Games Control Board. I am currently serving as the Acting Executive Director, while our Executive Director Ms. Jeanette A. Michael is recovering from an extended illness. She has testified before this committee many times and we wish her well in her recovery. I have been asked to testify today on behalf of the agency because in addition to leading the operation of the lottery, I also serve as project lead and Chief Panelist for the proposed contract for the online gaming system (Contract No. CFOPD-7-C-053).

### **Need for New Gaming System**

As this committee is aware, and as Ms. Michael and I have testified since the restructuring of the agency in 2004, despite a major reduction in staffing the DCLB management has operated the agency at an extraordinary level by improving processes, launching new products, instituting tight audit controls, and adopting project management across the entire agency. Indeed some of our noteworthy accomplishments in 2007 include the following:

- Being ranked in the top five nationally for per capita sales for online games;

- Upgrading internal operations to improve data management, records, and enterprise applications; and
- Celebrating 25 years of success by holding numerous community activities throughout the city where we thanked our players and retailers.

The net effect of these improvements have been to achieve record and near record revenues the last two years, improve the certainty of our performance with respect to our transfer target, and to position the agency for future growth.

These achievements have been manifested against the backdrop of a relatively outdated gaming delivery system, a troublesome telecom delivery system, and a vendor cost structure that has grown less competitive over time. The current system has technology limits that prevent the DCLB from expanding into new game formats, rapidly changing service offerings, and playing new game styles. These things limit our ability to market and expand the lottery in some product categories (e.g. Rapid Draw Games). Many of these things impact the DCLB's ability to increase transfer growth. As a result, even though the current gaming contract does not expire until

November of 2009, the executive team at the DCLB started preparation for the acquisition of a new gaming system in 2005, while simultaneously working to improve the technology in other parts of the organization. Some of these improvements include upgrading our servers, developing a data warehouse, adding business intelligence capability, and automating parts of the claims process.

### **Planning for the New Gaming System**

Since 2005 the DCLB has been pre-planning, researching, and developing the requirements for the new gaming platform proposal. As part of that preparation we looked at proposals developed by other states including Texas, Connecticut, Maryland, and others. We also, used the standards template developed by the North American Association of State and Provincial Lotteries for gaming system proposals. This template is being used across the country by similar situated lotteries to help expedite and facilitate the development of requests for proposals for new lottery gaming systems. Additionally, we added another step and engaged a nationally recognized consultant, Battelle Memorial Institute, to support the DCLB through the requirements gathering, proposal development, evaluation, and award phases of the project. Consequently, the DCLB was extremely well

prepared to complete the development work necessary to acquire a quality gaming system.

**In developing our request for proposal some of the key areas of interest focused on:**

- ♦ Achieving significant cost savings in operations and contractor fees;
- ♦ Upgrading our technology to be server based, with enhanced reporting features, security, and customer facing peripherals and monitors;
- ♦ An increase in system performance for operating at above 98% availability;
- ♦ Upgrading our telecommunications system on a digital platform and that provides for end-to-end trouble shooting and network monitoring;
- ♦ Gaining access to enhanced marketing support, play styles, monitor games, and the ability to potentially adopt games developed by third parties;
- ♦ Improving our emergency recovery and emergency backup capability;
- ♦ Improving management and accounting for online and instant ticket products;
- ♦ Obtaining a staff planning and implementation schedule that will ensure the successful launch of the new gaming system;
- ♦ Receiving a contract that is structured with at least a 5 year initial term and several one year options.

### **Vendor Proposal Review Process**

To make sure that these objectives were met, a highly experienced proposal review team (Source Selection Evaluation Board or “SSEB”) was convened to review the requirements, vendor questions, and the vendor proposals. The SSEB was vetted by the CFO’s Contract Office and included senior people

from the DCLB, the CIO, and a representative from OIO. Also, the entire team participated in structured site visits for each vendor submitting a proposal response. Battelle also reviewed each proposal. All of this information was reviewed, discussed, and distilled in the proposal review process and factored into the vendor selection. As a result, we believe that work product of SSEB and process produced the desired results.

The vendor recommended for selection of this proposal, W2I, has met all of the requirements of the proposal including those highlighted above. It scored consistently well technically in all phases of the evaluation and received the highest technical score. The SSEB did not evaluate the price proposal. However, based on the bids it is anticipated that the selected vendor price will save the DCLB \$4-\$5M in cost savings during the first year of the contract. The potential also exists to grow gaming revenue early in the initial term, which should also help improve the transfer to the General Fund.

The proposed system configuration includes updated technology, high speed data transmission, improved operational certainty, excellent customer facing equipment, and emergency backup. The selected proposal also features

enhanced accounting, reporting, and auditing capability. There is an extensive new games library, a forward looking approach to marketing, and enhanced play styles. The selected proposal also includes a good staffing plan and an adequate implementation plan for the proposed system.

Furthermore, the selected vendor also participated in the best and final offer process offered an excellent price reduction with an incentive to grow revenues above \$300M and accepted a 6 year initial term and 1 four year option as part of the deal terms.

### **Potential Impact of the New Gaming System**

We believe that the development of a new gaming system is vital to the continued success of the DCLB. We also believe that the recommended vendor delivers the best value and system to allow the DCLB to reduce costs, grow revenues, and continue to improve overall operations. The new gaming system architecture should help usher the DCLB into a new level of market appearance, allow us to speak to new and existing customers differently, and to do it in a more efficient way. Ultimately, these improvements have the potential to better serve our customers, retailers, and citizenry of the District of Columbia.

With the adoption of a new gaming system, some resource modifications, and continual process improvements, the DCLB is poised to accelerate its leadership in the lottery industry. Thanks to the management and staff of the agency, the DCLB continues to demonstrate meritorious service and accountability. We look forward to upholding these standards as we continue to transform our operations. To obtain more information about the agency please see our website at [www.dclottery.com](http://www.dclottery.com).

### **Conclusion**

Thank you for this opportunity to present testimony on the DCLB and the new gaming system. We are looking forward to getting back on our planned implementation schedule and to complete the required correctly and expeditiously. We would like to thank this committee and the Chairman for helping the DCLB to achieve its goal of contributing to the well being of citizens of the District. We are now pleased to respond to questions.