

**PUBLIC OVERSIGHT HEARING ON
THE FISCAL YEAR 2003 AND 2004 SPENDING AND
PERFORMANCE BY THE OFFICE OF THE CHIEF
FINANCIAL OFFICER (OCFO)**

**Before the
Committee on Finance and Revenue
Council of the District of Columbia**

The Honorable Jack Evans, Chairman

**February 25, 2004, 9:00 a.m.
Council Chamber, John A. Wilson Building**



**Testimony of
Jeanette A. Michael
Executive Director
D.C. Lottery and Charitable Games Control Board**

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

Good Morning Chairman Evans and members of the Committee on Finance and Revenue, I am Jeanette A. Michael, executive director of the D.C. Lottery and Charitable Games Control Board. I am pleased to have this opportunity to present testimony about the Lottery's Fiscal Year 2003 accomplishments as well as the developments and outlook for Fiscal Year 2004. With me today are William Robinson, the Lottery's chief financial officer and Barry Robinson, the Lottery's budget director.

The Lottery's mission is to generate revenue for the District's General Fund through the sale of lottery games to city residents as well as commuters and visitors to the District of Columbia. As a self-supporting agency that does not spend Federal or District tax dollars to operate, we are also charged with regulating charitable gaming in which we assist non-profit organizations in their fundraising efforts through bingo, raffles, and Monte Carlo Night Parties. These organizations raise millions of dollars for food, education, housing, health care and other basic services for those in need.

FY 2003 Accomplishments

In Fiscal Year 2003, the D.C. Lottery reached a milestone as sales hit a record-breaking \$237.2 million. This mark eclipsed the previous sales record of \$230.2 million, which was set in Fiscal Year 1995. We also exceeded the budgeted transfer of \$68.6 million by \$3.4 million.

The D.C. Lottery's Fiscal Year 2003 Approved Budget was \$233.0 million with a general fund transfer of \$68.6 million. During FY 2003, in response to greater than budgeted sales activity, the Lottery requested and received a budget modification that increased the budget to \$244.4 million and increased the general

fund transfer to \$70.8 million. The actual sales were \$237.2 million and the actual transfer was \$72.0 million.

Our success was based on the execution of marketing plans and solid POWERBALL jackpot runs. To achieve the levels obtained, we did the following:

- Added a new game to our product line
- Attracted new players
- Focused on sales in our core games – DC Lucky Numbers™ (three-digit) and DC-4™ (four-digit) and instant tickets
- Strengthened our agent base

In response to D.C. Lottery players' interest in a rapid-draw game, we launched D.C. Keno™ in May of 2003. The launch was covered live on a local broadcast station, which helped generate enthusiasm and excitement about the game. To-date, Keno sales are doing better than expected.

Another objective for the fiscal year was maintaining and increasing our sales for our three and four digit games. These core games account for approximately 62 percent of overall budgeted sales and 70 percent of transfer amounts. We were successful in accomplishing our goals of increasing the combined sales for the two games by \$1.5 million, while the combined transfer amount increased by \$.3 million.

Consistent with national industry trends, the D.C. Lottery realized a 12% increase in instant ticket sales in FY 2003 by launching 36 games in FY 2003 compared to

33 games in FY 2002, increasing our price points, and utilizing more Instant Ticket Vending Machines.

We continued to focus on our agents by improving communications with them. During FY 2003, we issued eight (8) regularly scheduled agent newsletters. We also held lottery agent advisory meetings and based on recommendations from the meetings, improved services to the agents. These activities were vital to strengthening our relationship with Lottery agents and adding to the spirit of our partnership.

POWERBALL sales also contributed to the Lottery's success in FY 2003. As I indicated in my testimony last year, POWERBALL jackpots are a major determinant governing the Lottery's transfer to the general fund. Actual POWERBALL sales generated in FY 2003 totaled \$44.4 million compared to \$27.7 million in FY 2002, for an increase of \$16.7 million. Transfer to the general fund increased to \$16.2 million, or \$5.9 million more than the FY 2002 transfer of \$10.3 million.

The difference in sales and transfer amounts can be attributed to the jackpot runs during each fiscal year. The POWERBALL jackpot reached \$100 million or more four times during FY 2003 with two runs in which the jackpot approached \$300 million. In Fiscal Year 2002, only one POWERBALL jackpot hit \$100 million. This clearly demonstrates the nexus between sales and jackpots.

To combat what is known in the industry as "jackpot fatigue," which is defined as the trend of lower sales when comparing similar jackpot levels over time, the

Lottery implemented strategies to maximize POWERBALL sales at all jackpot levels.

These included:

- Branding
- Increasing jackpot awareness through:
 - More visible signage
 - Increased radio and television advertising
 - Internet advertising
- Sale of tickets at Special Events
- Agent incentives

Our studies show that the implementation of these strategies resulted in an increase in sales at similar jackpot levels.

The Lottery's other FY 2003 highlights include:

- Achieving record sales for our instant games and DC-4.
- Licensing 140 non-profit organizations to hold charitable gaming fundraising events. These organizations raised nearly \$3.5 million dollars to support non-profit programs and services.
- Significantly increasing our media coverage. During the year, articles about the Lottery were published in local and national newspapers. We were also featured on local radio and television stations. Some of the topics included:
 - Black History Calendar/Poster
 - Lottery winners and agents
 - Charitable Gaming Events
 - POWERBALL jackpots

- Employees' community achievements
- Improving efficiencies by launching integrated project management and developing a three-year strategic plan.
- Recognizing D.C. Lottery employees for their industry expertise. Throughout the year, employees were invited to give presentations at various conferences and workshops.

FY 2004 Developments

In FY 2004, the Lottery expects to surpass its previous sales record with an Approved Budget of \$242.8 million and a projected general fund transfer of \$70.2 million. This is an ambitious goal, yet, based on first quarter results, it appears to be attainable. Ticket sales through the first quarter of FY 2004 totaled \$63.0 million, which is an increase of \$2.3 million over FY 2003 first quarter sales and \$2.5 million greater than projected. General Fund transfers through this period totaled \$23.4 million and that amount is \$.9 million greater than the prior year's transfer. It also represents a \$5.7 million increase over the FY 2004 first quarter estimate.

To meet our target, which requires attracting new players, the Lottery plans to:

- Launch a new game
- Improve the performance of current games
- Initiate new promotions
- Increase the number of agents and improve their performance

For the third consecutive year, the Lottery is launching a new game. This April, the Lottery will add Hot Lotto™ to its gaming portfolio. Hot Lotto is a Multi-State

Lottery game that is designed to fit the niche between the high POWERBALL jackpots and the lower prize payouts offered by our other games.

In FY 2004, we plan to increase instant ticket sales by: launching 40 scratch games, an increase of four games over 2003; selling more tickets with higher price points; and adding licensed games, such as Taste of D.C. and Cherry Blossom Cash, to satisfy a maturing player base.

Planned or current promotions for our on-line games include: 1) Lucky Red Ball with DC Lucky Numbers in which winnings can increase by approximately 20 percent; 2) Nth ticket in which a free play is automatically won in HOT FIVE™; 3) second chance drawings for DC Lucky Numbers and for DC-4, and 4) buy X get Y free.

The Lottery will continue to sell tickets at special events throughout the District, such as The Washington Auto Show, Adams Morgan Day, and Taste of D.C. Events like these attract thousands of residents and visitors of various demographics.

In addition to tourists, commuters represent a significant group of lottery players. Therefore, advertisements are strategically placed on the side of Metrobuses, transit shelters, and on top of *The Washington Times* building.

In FY 2004, we have intensified our recruitment efforts in the following areas: 1) non-traditional businesses as potential retailers and 2) locations where there is a need for more agents. We have also streamlined our application process and listed the benefits of becoming an agent on our website.

As a motivating tool for agents, we have implemented the Agent Incentive Program that provides financial incentives for agents achieving outstanding sales performance. This initiative will help us to increase sales, improve communication with our agents, and show the value of the Lottery as a partner.

We recognize that the lottery industry is changing, and that it is imperative for us to launch new games regularly. Therefore, in addition to these initiatives, we have formed a task force to design a new cutting-edge game to attract Generation Xers. It is scheduled to launch in Fiscal Year 2005. We are also aware of the impact of the Internet in today's society and will be using our Web site – www.dclottery.com – as a vehicle to promote the Lottery.

For Fiscal Year 2004, new games, new players, and new agents are key to the Lottery achieving its goals. We will continue to follow our strategic plan and implement promotional and advertising strategies that will enable us to increase awareness about the Lottery throughout the District to residents, commuters, visitors, and businessowners.

Before I close, I would like to take this opportunity to thank the Lottery agents because we could not operate without them. I would also like to thank the members of the Lottery's Advisory Council, who have voluntarily provided us with their range of expertise, and of course, the Lottery staff. The fact that the Lottery was able to achieve the level of success that we did in FY 2003 is a testament to the hard work, dedication, and creativity of Lottery employees, as well as the overall efficiency of Lottery operations.

Thank you Mr. Chairman for this opportunity to present testimony on the performance of the D.C. Lottery and Charitable Games Control Board. We are pleased to respond to any questions that you or the committee members may have.

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