

PUBLIC OVERSIGHT HEARING
ON
THE FISCAL YEAR 2007 AND 2008 SPENDING AND
PERFORMANCE BY THE D.C. LOTTERY AND
CHARITABLE GAMES CONTROL BOARD IN 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 27, 2008, 10:00a.m.
Chamber, John A. Wilson Building



Testimony of
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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. Jeffrey Young, the agency's chief operating officer, William Robinson, the agency's fiscal officer, and Associate General Counsel Ridgley Bennett are with me today. I am pleased to present testimony about the D.C. Lottery's Fiscal Year 2007 accomplishments and outlook for Fiscal Year 2008.

FY 2007 SALES AND TRANSFER

The agency's revised budget for Fiscal Year 2007 was \$262.5 million (\$261 in sales and \$1.5 million in other income) with a transfer of \$69.1 million.

The Lottery's actual revenue for FY 2007 was \$257.9 million with a transfer of \$65.4 million to the General Fund.

The \$257.9 million in revenue generated in FY 2007 was the second highest in the Lottery's history. Nevertheless, the D.C. Lottery did not meet its FY 2007 revenue target because of a decrease in the sales of POWERBALL[®] and in the sales of the D.C. Millionaire Raffle Game[™].

The D.C Lottery did not meet the transfer goal because of the second highest prize payout ever. Historically, the D.C. Lottery anticipates a prize payout in the range of 51 to 52 percent.

The Lottery's overall prize payout in FY 2007 was \$145.3 million, which was 56.7 percent of sales making it the *highest* prize payout as a *percentage of sales* in the history of the D.C. Lottery.

FY 2007 was another year of the player, especially anyone who played DC-4[™] and benefited from the high prize payout of the popular four-digit game that was a *historical* 62.4 percent on sales of \$84.6 million. In Fiscal Year 2007, DC-4 players took home \$52.8 million in prize money.

I would like to describe an event that we discovered and cured in FY 2006 and was not was not brought to the Council's attention until recently because of an ongoing investigation. The D.C. Lottery first became aware of a potential problem with the security of the system when it began receiving complaints of overcharging from D.C. Lottery agents for lottery transactions around December 2005. Through the work of an internal technical review team, the D.C. Lottery was able to identify the problem and pinpoint the

technical issues for resolution by LTE and GTECH. Specifically, it was determined that the radio communications used by the gaming system had a previously undiscovered vulnerability that permitted employees of subcontractors to LTE to use GTECH equipment to enter “rogue transactions” into the system, producing apparently winning tickets that could be cashed as winners. The rogue act wagering activity occurred between December 2005 and June 2006. LTE and GTECH were able to implement a fix to the gaming system’s software that prevents any further rouge transaction of the type identified from occurring in the future. The D.C. Lottery engaged an outside consultant, Battelle Memorial Institute, to test and verify LTE’s and GTECH’s solution to the problem. Battelle’s final report on the matter concludes, “[t]he OCFO should feel confident that the D.C. Lottery, LTE/GTECH and Battelle have thoroughly investigated this incident, developed a logical and reasonable explanation as to how the incident occurred, and have developed a solution to identify and prevent similar attempts from happening in the future.” It should be emphasized that the breach of the gaming system in no way affected lottery players, the odds of winning or prizes paid to players. Moreover, all sales agents that were improperly charged for tickets they did not sell have been fully reimbursed for the overcharges.

FISCAL YEAR 2007 ACCOMPLISHMENTS

The D.C. Lottery did have several noteworthy accomplishments. Some of the highlights include:

- 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,
- Celebrating 25 years of success by holding numerous community activities throughout the city where we thanked our players and retailers;
- Employees continuing to be recognized by the National Association of State and Provincial Lotteries (Carol Jackson Jones winner and Michael Brown runner up) and the OCFO Labor Management Partnership Awards (Ann McPherson, Vanessa Newton and Anthony Samuel).

And, the D.C. Lottery continued to be a contributor to the social safety net of the Washington, D.C. community through the Charitable Games Department.

192 non - profit organizations were licensed to conduct charitable gaming in the District of Columbia in FY 2007. Through their fundraising events some \$4.9 million dollars were raised for worthy causes. As a result, during its 25 years of service to the Washington, D.C. Community, the D.C. Lottery and Charitable Games Control Board has helped non-profit organizations raise more than \$105 million for District residents in need of assistance.

FY 2008 DEVELOPMENTS

After celebrating 25 years of being DC's *Best Bet*, the D.C. Lottery is now evaluating the present to ensure its future. The D.C. Lottery's approved budget for Fiscal Year 2008 is \$266.7 million (\$265.2 million in sales and \$1.5 million in other income). The agency projects a transfer of \$73.3 million to the General Fund.

As of January 31, 2008, D.C. Lottery revenues were \$6 million behind in meeting its goal for FY 2008. Nevertheless, we are \$1.4 million ahead in meeting the transfer goal of \$73.3. The two drivers of this phenomenon are

that the prize payout is 52 percent, approximately one percent lower than what was budgeted. Additionally, our other expenses are lower than what was anticipated through this period.

Recognizing that we are behind in meeting the revenue goal of \$266.7 for FY 2008, the D.C. Lottery is continuing to monitor its FY 2008 marketing plan to enhance its sales promotions. In the upcoming months, we will:

- Launch a new D.C. SCRATCHER™ (instant ticket) featuring the WASHINGTON NATIONALS Major League Baseball team,
- Launch HOT LOTTO SIZZLER®. This game enhancement to HOT LOTTO® will accrue an additional \$1 per wager and will allow players to multiply their prizes (except the jackpot) by 3x (three-times);
- Launch POWERBALL – POWER PLAY10X®. This feature on POWERBALL for an additional \$1 wager will offer players a chance to multiply their winnings (except the jackpot) by 10X (ten times).

These and other innovative promotions are designed to help our agents increase sales thereby reinforcing *our partnership in success* with the businesses selling Lottery products.

To commemorate Black History Month, the D.C. Lottery continued its tradition of producing a Black History Calendar/Poster. Since 1986, the D.C. Lottery has been producing Black History Calendars/Posters that highlight African Americans and their contributions to America in such areas as education, arts, sports, entertainment, communications, business, and the military. The calendars/posters are distributed to D.C. Public Schools, government agencies, community centers, and the public. They are free and proudly displayed at numerous locations throughout the District of Columbia and do not bear any advertising of Lottery products.

The theme of this year's calendar is, "*D.C. Lottery Celebrates the Washington Mystics: Ten Years of Taking Charge and Making History.*" It is an educational piece that highlights the historical significance of women's professional basketball through the triumphs of our locally owned and operated WASHINGTON MYSTICS, WNBA team and its President and Managing Partner Dr. Sheila Johnson. More importantly, it is a contemporary, colorful, and dynamic design showcasing young, successful, and talented women who are making history by overcoming stereotypical obstacles found in professional sports.

Finally, during FY 2007, the D.C. Lottery's agents, Advisory Council, and staff continued their total commitment to achieving the core goals of the agency. So I say *thank you* to the agency's retailers, members of the Advisory Council, and Lottery employees. I appreciate their efforts as we continue to work as a team in FY 2008.

I remind the public that they can learn more about our agency on the Internet at www.dclottery.com.

Thank you, Mr. Chairman for this opportunity to present testimony on the D.C. Lottery and Charitable Games Control Board's performance. We are pleased to respond to questions.