

**PUBLIC OVERSIGHT HEARING ON
THE FISCAL YEAR 2010 AND 2011 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

**March 7, 2011 10 a.m.
Council Chamber, John A. Wilson Building**



**Testimony of
Buddy Roogow
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 Buddy Roogow, executive director of the D.C. Lottery and Charitable Games Control Board. Today, I am testifying about the D.C. Lottery's Fiscal Year 2010 accomplishments and the progress of the agency in Fiscal Year 2011. The D.C. Lottery's Fiscal Officer William Robinson and Associate General Counsel Ridgely Bennett are here with me this morning.

FY 2010 Sales and Transfer

Fiscal Year 2010 continued to prove challenging for the D.C. Lottery. The combination of a persistently weak economy, high unemployment rates, and the cross-selling of Mega Millions[®] and POWERBALL[®] by Maryland and Virginia are contributing factors to the five year downward sales trend the agency has faced since Fiscal Year 2006. Further evidence of our challenges is the three year decline in our core games (DC 3 and DC 4), which accounted for 54 percent of sales and 66 percent of transfer in Fiscal Year 2010.

The second quarter of Fiscal Year 2010 introduced a unique challenge for the agency. The D.C. Lottery is sandwiched between Maryland and Virginia, two of the largest and well-funded lotteries in the country. In January 2010, all lotteries began selling both POWERBALL and Mega Millions games. As a result, the D.C.

Lottery lost its competitive edge with POWERBALL. The jackpot growth for both games has also been negatively impacted since they are now hit more frequently and at lower levels. Prior to cross-selling, the District of Columbia was the only jurisdiction in the Washington, D.C. Metropolitan area that sold POWERBALL.

As a result of the ongoing challenges, the D.C. Lottery experienced a sales decline from its revised Fiscal Year 2010 budget of 250.0 million with a transfer of \$67.4million. The agency's actual sales were \$230.3 million with a transfer of \$66.7 million to the General Fund Despite many of the fiscal challenges, the D.C. Lottery's instant scratch ticket product line was the star of 2010. Sales for D.C. scratchers were \$50.0 million, a 10.43 percent increase over Fiscal Year 2009. The highlight in Fiscal Year 2010 was the launch of *District of Columbia Black* - the first scratch ticket with a \$1 million prize. Sales of the *Black* ticket are the highest in the D.C. Lottery's history of \$20 tickets.

Another stand out in Fiscal Year 2010 was DC 5, the five-digit numbers game. Fiscal Year 2010 was the first full fiscal year of sales, and DC 5 generated \$11.4 million in revenue with players winning \$5.3 million and agents earning \$.6 million in commissions.

During Fiscal Year 2010, the D.C. Lottery also implemented new and aggressive sales and marketing strategies to increase sales. They included:

- Adding a bonus feature to DC 5;
- Continuing to include a second chance drawing component with instant tickets;
- Garnering free media coverage of D.C. Lottery winners, agents, and games; and,
- Implementing agent incentives to encourage D.C. Lottery retailers to sell more D.C. Lottery games.

As part of its mission, the D.C. Lottery continued to help others by licensing nonprofit organizations to hold charitable gaming events:

- raffles;
- bingo;
- Monte Carlo Night Parties; and
- Texas Hold ‘Em Tournaments.

In Fiscal Year 2010, the agency licensed 168 organizations to hold charitable gaming fund-raising events, and those groups raised \$4.5 million for programs and services dedicated to improving the lives of children, families, veterans, and others in need in the Washington, DC area.

FY 2011 Developments

The D.C. Lottery's approved budget for Fiscal Year 2011 is \$260.2 million (\$259.2 million in sales and \$1.0 million in other income) with a transfer of \$68.5 million to the General Fund.

The first four months of this fiscal year have seen an overall sales increase of D.C. Lottery games compared to the same period last year. By the end of this fiscal year, the combination of new products, better marketing and improved system performance will enable us to reverse the long term trend of decreasing lottery sales in the District. It remains to be seen whether this turn-around will be sufficient enough to reach our actual transfer target for the year. Currently, player payouts have been above forecast; thereby, reducing the return to the District

The D.C. Lottery has initiatives underway to further reverse the current trend and meet its sales and transfer goals. In November 2010, the D.C. Lottery converted to the new, state-of-the art gaming system. With this upgraded system, we immediately offered players a new monitor game -- RACE2RICHES. The addition of RACE2RICHES has provided an additional revenue stream and aided in the recruitment of new retailers. Since December 2010, the agency has added 31 new retailers, which includes seven Rite Aid stores and many new social settings.

The agency also launched its second \$20 ticket – *Gold* – a follow up to the popular *District of Columbia Black* ticket. Like its predecessor, it has two-\$1 million top prizes. *Gold* also offers a second chance drawing component with an additional \$1 million top prize. The D.C. Lottery is also:

- Adding a new game to its product line – Fast Play. This game is designed to appeal to both numbers players and those who like instant scratch ticket games. We are projecting revenue to reach \$1 million in Fiscal Year 2011, and \$2 million in Fiscal Year 2012.
- Working with the Washington Metropolitan Area Transit Authority to sell tickets within the Metro system. This is particularly important in the District, which has a substantial commuter population. Nearly half of all District Lottery players live in Maryland, while 12 percent live in Virginia. With 60 percent of our players living outside of the city, it is imperative that we make lottery games easily available to them.
- Implementing marketing and promotional efforts to attract new players. Currently, I am part of a committee created to develop a new national game to address the jackpot fatigue plaguing the lottery industry, as demonstrated by sluggish sales of both Mega Millions and POWERBALL. We are reviewing national gaming options to reverse this trend, and anticipate an announcement by the end of the year.

In closing, I would like to publicly thank all D.C. Lottery retailers. Many of our retailers are small business owners who play an integral role in the fabric of this community. They, along with the staff of the D.C. Lottery, make this agency successful. I appreciate their efforts as we move forward in FY 2011.

I would also like to thank our players for their loyalty. We will continue to deliver new and exciting games and promotions, and hope that they continue enjoying D.C. Lottery games. And, I invite the public to visit our award-winning website, www.dclottery.com, to learn more about the agency.

Mr. Chairman, thank you for this opportunity to present testimony on the D.C. Lottery's performance. We are pleased to respond to questions.