

**PUBLIC OVERSIGHT HEARING ON
THE FISCAL YEAR 2011 AND 2012 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 27, 2012 11:30 a.m.
Council Chamber, John A. Wilson Building**



**Testimony of
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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 2011 accomplishments and the progress of the agency in Fiscal Year 2012. The D.C. Lottery's Fiscal Officer William Robinson and Associate General Counsel Ridgely Bennett are here with me this morning.

FY 2011 Sales and Transfer

First, I'd like to thank you for this opportunity to update the committee on our progress. As I've often noted when testifying before this committee, the D.C. Lottery is the most unique lottery in the country, and with that comes some of the most distinctive challenges. We are a city sandwiched between two of the country's largest and most well-funded lotteries – Maryland and Virginia. Our population swells during week days with commuters from our competitors and tourists who are in large part visiting landmarks in the Federal Enclave where we are prohibited from selling our products.

And yet, while these challenges persist, we have greeted them with proven strategies that are transforming the D.C. Lottery. For decades, our Lottery has thrived with our numbers games as our greatest source of revenue. But over the last five to six years, we've seen a consistent decline in that category. While this has been cause for concern, we've continued to develop strategies to maintain a consistent level of revenue, while at the same time focusing efforts on our growth products. We've witnessed great success with our instant scratch ticket category, logging record-breaking sales. We've expanded our monitor games and upgraded the play styles. These games have shown that interactive play, especially in social settings, is our best formula for the future for game development and retailer

recruitment. Therefore, it is incumbent upon us to do all we can to maintain our numbers portfolio in this era of declining interest and play as we strengthen our new interactive game portfolio to try to reach a broader demographic with exciting new games and features. The lottery consumer today is smart and savvy and seeks entertainment as well as reward when purchasing a lottery product.

The evidence of our efforts was visible in our Fiscal Year 2011 performance, where we produced the agency's first sales gain in five years, reaching \$231.4 million -- for an increase of more than \$1.7 million over the prior Fiscal Year 2010 total of \$229.7 million. This reversal of the downward sales trend can be largely attributed to the instant scratch ticket product line, a new monitor game, and the execution of innovative sales and marketing strategies that are proven to impact revenue. It is even more evident this fiscal year as we see overall lottery sales increasing at an even greater pace as compared to last year. The increase is particularly evident in our new games and instant ticket categories.

Despite these positive developments, the D.C. Lottery also faces challenges. The combination of an uncertain economy and the cross-selling of Mega Millions[®] and POWERBALL[®] by Maryland and Virginia are contributing factors in our sales and transfer performance. Further evidence of our challenges is the four year decline in our core games (DC 3 and DC 4), which accounted for 51 percent of sales and 62 percent of transfer in Fiscal Year 2011.

A closer examination of D.C. Lottery sales from Fiscal Year 2006 to the present reveals a particularly pronounced downward sales trend with the POWERBALL game since the introduction of cross-selling in Fiscal Year 2010. The addition of

Mega Millions to the jackpot game portfolio has not compensated for the loss in POWERBALL sales as a result of cross-selling.

The D.C. Lottery's instant scratch ticket product line, however, experienced a record-breaking year and continues to exceed our expectations. Sales for D.C. scratchers were the best in D.C. Lottery history at \$56.1 million, representing 2 \$6.1 million or 11.2 percent increase over Fiscal Year 2010. Highlights in Fiscal Year 2011 included the launch of *D.C. Gold* – our second \$20 scratch ticket but with three \$1 million top prizes; and our licensed products Dubble Bubble Doubler, Pink Panther, and Betty Boop.

Other notable game launches in Fiscal Year 2011 were Race2Riches® and D.C. Fast Play. Race2Riches is the D.C. Lottery's first fast-paced, animated horse racing monitor game. In FY11, the game generated \$3.7 million in ticket sales. The D.C. Fast Play game is sold like a numbers game, but plays like an instant ticket with the added capability of rapidly creating new games with different play style, price points, and prize levels. In a little more than six months, the game generated more than \$2 million in sales,.

During Fiscal Year 2011, the D.C. Lottery continued to create new and aggressive sales and marketing strategies to increase sales. They included:

- Continuing to include a second chance drawing component with instant tickets;
- Deploying a mobile sales unit to garner incremental sales and amplify exposure for our products;
- Launching Agent Plus locations for added player convenience when cashing prizes at predetermined levels;

- Garnering free media coverage of D.C. Lottery winners, agents, and games; and,
- Implementing a recruitment campaign aimed at social settings.

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 2011, the agency licensed 186 organizations to hold charitable gaming fund-raising events, and those groups raised \$3.3 million for programs and services dedicated to improving the lives of children, families, veterans, and others in need in the Washington, DC area.

FY 2012 Developments

The first five months of this fiscal year have seen an overall sales increase of D.C. Lottery games compared to the same period last year. We expect to continue in an upward trend as evidenced by our comparison with the same period in FY11. Sales are higher by 7.1% or \$6.3 million in Fiscal Year 2012, and transfer is higher by \$2.1 million or 9.2%. As of February 21, 2012, over a 21-week period, we projected sales at \$95.28 million and transfer at \$24.58 million. Actual results show that sales are at an estimated \$94.7 million, only slightly lower than projected, and transfers are at \$24.9 million, based on revenue projections of \$242 million and transfer to the General Fund of \$62.3 million.

The D.C. Lottery has initiatives underway to further reverse prior year trends and meet its sales and transfer goals. In January 2012, the POWERBALL game was enhanced: increasing the price point to \$2, improving the overall odds, and jackpots starting at \$40 million.

The agency also launched its first hockey-themed ticket in partnership with The Washington Capitals. Exceeding all expectations, this game is our best-selling sports themed instant ticket, and is thus far the best-selling \$5 instant ticket. This game was followed up with Cadillac Riches, also a \$5 instant game and it is on target to surpass The Washington Capitals game to possibly become the best-selling \$5 instant ticket.

The D.C. Lottery is also:

- Strategically adding new D.C. Fast Play games. This game is designed to appeal to both numbers players and those who like instant scratch ticket games. We are projecting revenue to reach \$5 million in Fiscal Year 2012, and \$6 million in Fiscal Year 2013.
- We have not abandoned our efforts to work 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. Both parties are interested in the partnership, but there still remain a number of administrative requirements that must be addressed in order to move forward.

- Implementing marketing and promotional efforts to attract new players. We are currently executing a promotion, Midday Money, aimed at encouraging play during the day to our substantial commuter population. I am also part of a committee developing 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 soon.

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 2012.

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.