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Council of the District of Columbia

PUBLIC HEARING ON THE MAYOR'S FISCAL YEAR 2002 BUDGET SUPPORT ACT OF 2001

Testimony of Anthony S. Cooper, Executive Director of the DC Lottery, before the Committee on Finance and Revenue

Good afternoon, Chairman Evans and members of the committee. I am Anthony S. Cooper, executive director of the DC Lottery. I am pleased to have this opportunity to present testimony on the DC Lottery's fiscal year 2002 proposed budget. With me today are Sylvia Kinard, deputy director; William Robinson, chief financial officer; and Barry Robinson, budget director.

The primary mission of the DC Lottery is to generate revenues for the District's general fund through the sale of lottery products to residents of, and visitors to, the District of Columbia. In this regard, the DC Lottery's FY 2002 proposed budget is based on \$229.7 million in revenue and \$160.7 million in expenditures. This represents a \$6.5 million, or 2.9 percent, increase in revenue over the FY 2001 budgeted amount of \$223.3 million.

By way of background, the DC Lottery, like most lotteries across the nation, is feeling the pains of a maturing lottery – that is, fewer people are playing and, nationwide, revenues are down. However, the stimuli that spur these phenomena vary from lottery to lottery. For the DC Lottery, it is the aggressive deployment of new games by regional competitors in conjunction with jackpot fatigue and changing demographics.

Lottery industry statistics and reports indicate that consumers generally prefer games that offer short odds and a better chance of winning smaller amounts over games that have longer odds and a larger jackpot. More succinctly, three times as many players, or potential players, prefer the smaller jackpot games, such as non-casino slots as offered in West Virginia and in Delaware, or keno, as offered in Maryland, as opposed to the large jackpot games that are characteristic to the current offerings of the DC Lottery.

Until a new game that can successfully challenge these efforts is developed and deployed, the Lottery has been left with having to diversify and rejuvenate the current online and instant game portfolio. To make the offerings of the DC Lottery more attractive, odds of winning have been shortened, and prizes have been increased, giving players a greater opportunity to win more money, more frequently. This approach has increased the cost of lottery operations as currently configured – that is, more resources must be used to achieve the same level of return as in previous years. Revenue from the DC Lottery's current game portfolio is projected to remain stable. This is due primarily to three factors: (1) jackpot fatigue; (2) shifting demographics; and (3) increased competition from neighboring jurisdictions.

In FY 2002, expenditures for the Lottery are projected to be \$159.7 million, an increase of \$5.5 million, or 3.6 percent, over the FY 2001 budgeted amount of \$154.2 million. The driving factors behind the FY 2002 expenditure increase are the launch of a new rapid draw/monitor game, as well as increased sales incentives for lottery agents. As previously indicated, sales revenue generated from the current game portfolio is anticipated to remain flat in FY 2002. However, sales revenue generated from the new game is anticipated to marginally outpace the expenditure increase. Therefore, the transfer to the general fund should increase to approximately \$70 million.

The Lottery is in the process of reviewing alternative approaches to the deployment of the monitor/rapid draw game. Once a decision is made, the procurement process will begin, and the game will be ready for deployment in early FY 2002.

The FY 2002 budget will also support the maintenance and strengthening of the lottery's agent base. Presently, DC Lottery agents, even though they are paid incentives and bonuses, are the only lottery agents in the United States who receive less than a straight five percent commission, which is the industry average. A number of lotteries have restructured their commission and bonus structures to meet declining sales. For the District of Columbia, it is imperative that similar measures be taken to address the eroding agent base in order for the DC Lottery to remain competitive with Maryland and Virginia.

For your information, the executive director of the Lottery, in consultation with the chief financial officer (CFO), makes the final decision regarding the lottery agent commission structure, including incentives and bonuses for lottery agents.

In addition, our licensing and charitable games division will, during FY 2002, continue to protect the integrity of charitable gaming within the District by licensing major charities to conduct bingos, raffles, and Monte Carlo night parties in efforts to raise funds. Since its inception, this division has helped these groups raise over \$63 million. It is anticipated that in FY 2002, an additional \$3.5 million will be raised in support of non-profit groups.

We anticipate that in FY 2002, the DC Lottery's expanded initiatives will be achieved with a staffing level that has remained unchanged since FY 1997. Personnel services expenditures for FY 2002 should increase by only three percent from the FY 2001 approved level. The Lottery's FY 2002 personnel services funding request is based primarily on the step-by-step instructions for "Schedule A" development issued by the Office of Budget and Planning. The Schedule A is the regular salaries projection tool used by the District of Columbia, and takes into consideration the grades and steps of incumbents, and the anticipated grades and steps of new hires into vacant positions. Fringe benefit funding is calculated by formula, and funding for overtime is based on historical operations. Decisions regarding personnel services are made by division heads based on final review and concurrence by the Lottery's executive director.

In conclusion, with a strengthened agent base, the stimulation of a newly deployed rapid draw game, and improvements to its present game portfolio, the DC Lottery will enter fiscal year 2002 with higher expectations and greater opportunities for success.

Thank you, Mr. Chairman, for this opportunity to present testimony on behalf of the DC Lottery. I would be happy to answer any questions that you or the committee members may have.