

February 28, 2002

Council of the District of Columbia

PUBLIC OVERSIGHT HEARING ON THE PERFORMANCE OF THE OFFICE OF THE
CHIEF FINANCIAL OFFICER DURING FISCAL YEARS 2001 AND 2002

Testimony of Jeanette A. Michael, Deputy Director for Operations, DC Lottery and Charitable Games Control Board, before the Committee on Finance and Revenue

Good morning, Chairman Evans and members of the Committee on Finance and Revenue. I am Jeanette A. Michael, Deputy Director for Operations for the DC Lottery and Charitable Games Control Board (DC Lottery), and I am pleased to have this opportunity to present testimony on the accomplishments of the DC Lottery in Fiscal year 2001 as well as FY 2002 developments. With me this morning are DC Lottery Chief Financial Officer William Robinson and Budget Director Barry Robinson.

The primary mission of the DC Lottery has been, and continues to be, to generate revenue for the District's General Fund through the sale of lottery games to residents, commuters and visitors to the District of Columbia. To this end, we have historically done well. In addition, the Charitable Games Division is charged with the regulation of charitable games and assisting charitable and non-profit organizations in raising funds through bingo, raffles, and Monte Carlo Night Parties.

FY 2001 Accomplishments

For FY 2001, the DC Lottery's budget was \$223.2 million, which included sales of \$221.0 million and a transfer to the General Fund of \$69.0 million. The actual transfer for FY 2001 was \$84.0 million. This amount exceeded the FY 2001 budgeted transfer amount by \$15.0 million. The FY 2001 transfer level was achieved through actual sales of \$223.8 million, which, in itself, represented an increase of \$2.8 million over budgeted sales.

Although FY 2001 was a banner year in terms of sales and the resultant transfer to the General Fund, we must be cognizant of the trends that define the successes or failures of state run lotteries – unpredictable prize payouts and unpredictable PowerBall jackpot sales. Let me give you an example of these factors. In FY 2001 prize payouts to lottery winners were \$7.7 million below the projected amount. The substantial increase in PowerBall sales of that year generated another \$7.0 million in sales for the transfer. Without these two events, the FY 2001 transfer amount would have mirrored the prior year's transfer amount of \$69.5 million.

The following chart reflects actual ticket sales, prize payouts and the resulting transfer amounts over the past three fiscal years (1999 – 2001). It provides a better understanding of the impact of prize payouts on the transfer.

FISCAL YEAR	SALES	PRIZES	TRANSFERS	PRIZES AS A PERCENT OF SALES
1999	\$ 207,090,718	\$ 110,519,599	\$ 64,225,000	53.37 %
2000	\$ 215,770,807	\$ 112,812,942	\$ 69,450,000	52.28 %
2001	\$ 223,864,057	\$ 105,594,472	\$ 84,000,000	47.17 %

Another trend that affects mature lotteries are flat and declining sales. The fact that the DC Lottery's sales have not declined over the past three years is testament to the hard work and dedication of the DC Lottery staff and our agents throughout the city and innovative marketing strategies that promote the DC Lottery's game portfolio. In FY 2001, these games consisted of Lucky Numbers (3 digit); DC Four (4 digit); Hot Five; Quick Cash; PowerBall; and our instant scratch games.

Other FY 2001 successes include:

- The launch of thirty-nine (39) new instant games and the introduction of the first \$10 ticket that set record sales for the second and third quarters,

- A major recruitment effort that resulted in 16 new agents,
- The receipt of several national and international advertising awards, and
- The introduction of “Lotto People” magazine.

In addition to these accomplishments, our Charitable Games Division assisted over 100 major charities and non-profit organizations in the District in raising in excess of \$3.7 million.

FY 2002 Developments

FY 2002 marks the DC Lottery's 20th anniversary. Over the last two decades, the DC Lottery has generated more than \$1.0 billion for the District of Columbia's General Fund. During this time, players have won over \$1.5 billion. DC Lottery games surpassed the \$3.0 billion mark in total sales, and \$75.0 million was generated by charitable organizations with lottery licensing support and technical assistance. DC Lottery agents also fared well, collecting over \$167.0 million in commissions. The DC Lottery cannot rest upon the laurels of past achievements. We must plot our course through the turbulent waters of the future to bring continued success.

The DC Lottery's FY 2002 approved budget is \$229.7 million and includes ticket sales of \$227.5 million and a projected transfer amount of \$70.0 million. This fiscal year, the DC Lottery faces the following challenges: 1) a general slowdown in the economy; 2) the effects of the Sept. 11 and anthrax events; and 3) high prize payouts. These factors have impacted sales and transfers through January 2002.

Ticket sales through January 2002 totaled \$69.9 million and represented a marginal increase of \$0.4 million over prior year sales. However, this amount is \$4.5 million less than projections for this time frame. Although ticket sales are showing signs of recovery, overall sales for the fiscal year are projected to be in the \$215 million to \$220 million range.

This year the DC Lottery made an important business decision to increase our agents' sales commission rate from 4 to 5 percent beginning in January 2002. It is anticipated that this adjustment will not only maintain our current agent base, but will increase the number of agents who sell our lottery products. The estimated cost for the increase is \$1.5 million.

The FY 2002 to-date transfer to the General Fund is \$21.0 million, which is \$3.0 million below the projected amount. Lower than expected sales in FY 2002, prize payouts averaging 53.5 percent of sales, and the agent commission increase have impacted the transfer.

If the sales and high prize payout trends continue, it may adversely affect the transfer. Notwithstanding current projections, we at the DC Lottery are committed to increasing sales in an effort to meet the FY 2002 transfer target. We have taken steps to increase sales by enhancing strategic marketing and advertising of our products, improving public relations techniques, maintaining and recruiting new agents, and maximizing opportunities related to 20th anniversary activities. In addition, we are introducing new games with the prime objective of attracting new players while retaining our current player base. We are of the opinion that the implementation of our plans will lay a solid foundation for the remainder of FY 2002 and for FY 2003.

I would like to take the opportunity to thank the DC Lottery's Advisory Council. These individuals have volunteered their expertise in areas such as public relations, marketing and finance – business skills that are critical to the operation of this agency. They are committed to the city and understand that the success of the DC Lottery benefits those who live, work and visit the District.

Of course, I would be remiss if I did not commend the work of the agency staff. It is their enthusiasm, commitment and dedication that ensure the agency's success.

In closing, I wish to thank you, Mr. Chairman, for this opportunity to present testimony on the performance of the DC Lottery and Charitable Games Control Board. The agency appreciates the Council's continued support of the DC Lottery Board. I would be happy to answer any questions that you or the committee members may have.