

PUBLIC OVERSIGHT HEARING
FY 2002 AND 2003 SPENDING AND PERFORMANCE OF
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 26, 2003, 9:30 a.m.
Council Chamber



Testimony of
Jeanette A. Michael
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 Jeanette A. Michael, executive director of the D.C. Lottery and Charitable Games Control Board. I am pleased to have this opportunity to present testimony about the accomplishments of the Lottery in FY 2002 and the developments for FY 2003. With me this morning are William Robinson, the Lottery's chief financial officer, and Barry Robinson, the Lottery's budget director.

The Lottery's mission is to generate revenue for the District's General Fund through the sale of lottery games to residents of and commuters and visitors to the District of Columbia. In addition, we are charged with regulating charitable games and assisting charitable and non-profit organizations in raising funds through bingo, raffles, and Monte Carlo Night Parties. It is perhaps less well known that each year these organizations, with the assistance of the Licensing and Charitable Games Division, raise millions of dollars that provide housing, health care, and other basic needs and services whose costs would otherwise be borne by the District government or go unmet. With the economic crisis that many businesses experienced in FY 2002, this service was particularly needed by charities.

FY 2002 Accomplishments

For FY 2002, the Lottery's budget of \$229.7 million included sales of \$227.5 million, prize payouts of \$116.0 million (or 51 percent of sales), and a General Fund transfer of \$70.0 million. As you know, Lottery operating expenses, prize payouts, and the transfer to the General Fund are generated by lottery sales and augmented by interest on investments, fees, and reimbursements. The Lottery spends no federal or District tax dollars in its operations, and prize payouts are

governed by chance. The Lottery is part of the entertainment industry. Therefore, like other segments of that industry, it competes for discretionary dollars. Furthermore, its sales are impacted by the economy and tourism. Actual FY 2002 sales were \$211.2 million with a resultant transfer to the General Fund of \$63.0 million.

Last year I testified that jackpot levels drive POWERBALL sales. High jackpots lead to high sales and high transfers. Low jackpots culminate in low sales and low transfers. POWERBALL activity in FY 2001 and FY 2002 was consistent with these characteristics. In FY 2001, one POWERBALL jackpot run reached a record \$300.0 million. Sales that year were \$45.8 million and the transfer was \$17.5 million. Conversely, in FY 2002, the highest jackpot reached only \$100.0 million. Sales that year totaled only \$27.7 million, and the transfer was \$10.2 million.

I also indicated in my testimony last year that a higher than budgeted prize payout would also decrease the General Fund transfer. In any given year, total prize payouts are budgeted at approximately 51 percent of total sales. Each one percent increase above the 51 percent budgeted amount equates to an increase in expenditures (and an offsetting decrease in the transfer to the General Fund) of approximately \$2.3 million. During FY 2002, we had a record number of Quick Cash grand-prize winners, and the prize payout for Quick Cash was 76.5 percent of sales, which resulted in a transfer of \$235,000. This compared to FY 2001 when the prize payout was 23 percent of sales and the transfer was \$2.5 million. In FY 2002, along with low POWERBALL jackpots and an increased prize payout, the Lottery absorbed the following unfunded expenditures:

- To put D.C. Lottery agents on par with other state lotteries, as well as to maintain agents and recruit new ones, the agent sales commission was increased

from four percent to five percent. This resulted in an expenditure increase of \$1.6 million.

- A four percent across the board increase in salaries throughout the District resulted in an expenditure increase of \$0.25 million.

In spite of the challenges the Lottery faced during FY 2002, there were many successes. FY 2002 marked the D.C. Lottery's 20th anniversary. The Lottery celebrated throughout the city with events that promoted Lottery sales and garnered record levels of positive press coverage.

The Lottery's FY 2002 achievements also included the following:

- In an environment that was overshadowed by the lingering effects of the tragic events of September 11 and the ensuing economic slowdown, the Lottery was able to reverse a downward trend in most of its games. Sales increased as follows: Instant games by \$0.5 million, Lucky Numbers by \$1.6 million, DC-4 by \$2.9 million, and Quick Cash by \$.04 million.
- In August 2002, the Lottery launched EXTRA Lucky Numbers and EXTRA DC-4. This initiative resulted in additional overall sales for the Lottery and bolstered sales in the 3 and 4 digit games, which together represent 65 percent of the Lottery's sales revenue.
- The Lottery implemented the long awaited increase in agent commissions that helped to solidify the Lottery's valuable agent base and assisted in recruiting 22 new agents. This increase, combined with other efforts, such as agent incentive promotions, strengthened the Lottery's relationship with agents, while rewarding them for their accomplishments.

- The Charitable Games Division granted 130 charitable licenses to help non-profit organizations raise more than \$4 million, compared to FY 2001 in which the Lottery licensed 100 charitable organizations that raised \$3.7 million.
- Last fiscal year, the Lottery issued its annual Black History calendar and co-sponsored the Amistad replica during its visit to the District. For the first time, the Lottery held an essay and poster contest for D.C. Public School students and partnered with Riggs Bank to award the winners with \$500, \$250, and \$100 savings bonds. During FY 2002, the Lottery garnered more press coverage about the poster than it ever had before.
- During FY 2002, the Lottery received a record amount of press coverage for its games, events, and charitable gaming activities. It was featured in daily and community newspapers, on morning-drive radio programs, and all of the local broadcast networks. The events that were covered included, but were not limited to: 20th Anniversary Celebrations, EXTRA launch, Black History Poster Calendar, Lottery winners, and the Charitable Gaming Workshop

By implementing improved marketing and trade development strategies, the Lottery increased sales in the fourth quarter of FY 2002 and in the first quarter of FY 2003.

FY 2003 Developments

The Lottery's FY 2003 approved budget of \$232.9 million includes ticket sales of \$231.7 million, prize payouts of \$118.8 million, and a projected General Fund transfer of \$68.6 million. Based on first quarter results, we believe that these goals are attainable, and so far, we are ahead of projections. Ticket sales through January 2003 totaled \$79.5 million. This amount represents an increase of

\$9.6 million over prior year sales and \$3.1 million over the projection for the same period. The FY 2003 year-to-date transfer to the General Fund is \$27.2 million, an amount that is \$6.2 million greater than the FY 2002 transfer for this time frame and \$4.9 million greater than projected for the first quarter.

To meet and exceed the agency's sales and transfer goals, the Lottery plans to launch new games, increase the number of agents and improve their performance, and attract new players. New games will provide additional revenue streams and will allow the Lottery to assess game performance. In addition, when considering new games, the Lottery will pay particular attention to games that appeal to a wider demographic and that will meet the competitive challenges of our neighboring rivals. We plan to launch Keno, an online game, in the spring of 2003. We are also working with our online vendor to identify another game for our product line. The Lottery launches four new instant games a month. This year the instant tickets will include more licensed products such as Monopoly and unique themes such as the *Money Machine*.

I would like to take this opportunity to applaud the Lottery's agents. To attract additional businesses and maintain our current agent base, we plan to provide more support. Our sales representatives, who service the agents, will receive additional training to help the agents improve their sales goals. Finally, we will provide our agents with equipment that will make it more convenient for them to sell our products.

With the advent of new games and additional agents located throughout the District, the Lottery expects to attract potential players who currently do not avail themselves of the Lottery's opportunities. This fiscal year, we are implementing

promotion and advertising strategies that will enable us to do so. The Lottery also anticipates that its new Web site will appeal to a more diverse population.

Before I close, I would like to take this opportunity to thank the D.C. Lottery's Advisory Council, as they have voluntarily provided us with their range of expertise.

I would also like to commend the work of the Lottery staff. It is their enthusiasm, commitment, and dedication to the Lottery that ensures its success.

Thank you Mr. Chairman for this opportunity to present testimony on the performance of the D.C. Lottery and Charitable Games Control Board. We are pleased to respond to any questions that you or the committee members may have.

###