

April 16, 2002

Council of the District of Columbia

BUDGET HEARING ON THE BUDGET REQUESTS OF THE OFFICE OF THE CHIEF FINANCIAL OFFICER FOR FISCAL YEAR 2003

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

Good afternoon, Chairman Evans and members of the committee. I am Jeanette A. Michael, Deputy Director of Operations for the DC Lottery and Charitable Games Control Board, and I am pleased to have this opportunity to present testimony on the DC Lottery's FY 2003 proposed budget. With me today are the agency's Chief Financial Officer, William Robinson, and the 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.

In January 2002, the DC Lottery began celebrating its 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, DC Lottery games surpassed the \$3.0 billion mark in total sales and players won over \$1.5 billion. DC Lottery agents also fared well, collecting over \$167 million in commissions. \$75 million was generated by charitable organizations with lottery licensing support and technical assistance. To continue the DC Lottery's success, we must develop new games, recruit agents in different venues, and educate the public about our products.

FY 2003 Budget Request

The DC Lottery's FY 2003 proposed budget is 100 FTEs and \$232.9 million. This represents no change in FTEs and an increase of \$3.2 million (1.4 percent) over the FY 2002 approved budget.

In FY 2002, the Lottery made an important business decision to increase our agents' sales commission rate from 4 to 5 percent. The related budget increase of \$2.4 million will not only help us maintain our current agent base, but will assist us with the recruitment of new agents. The balance of the requested increase is to upgrade the Lottery's online gaming system to keep pace with changes in the industry and to position us for future growth (\$0.6 million), as well as to cover approved pay increase costs for employees (\$0.2 million).

The Lottery's FY 2003 budget request reflects a General Fund transfer of \$68.6 million, which is based on the combination of our current revenue projection and expenditure estimate for the year. This amount was approved by the Office of Budget and Planning during the budget formulation process, and is identified in the "Agency Goals and Performance Measures" section of the DC Lottery narrative in the FY 2003 Proposed Budget and Financial Plan. The Office of Research and Analysis has estimated the General Fund transfer to be \$72.9 million, as indicated in the revenue section of the FY 2003 Proposed Budget and Financial Plan. This projection is based upon factors and assumptions that were supplied by us to the Office of Research and Analysis in FY 2001 that we believe are no longer valid. We anticipate that this transfer target will be revisited in May, when revenue projections are revised.

Lottery Programs

The FY 2003 sales target of \$230.5 million is an aggressive goal, and has been achieved only once before during the history of the lottery's operations. In FY 1995, high PowerBall jackpots helped drive sales to \$230.2 million. To meet our FY 2003 sales and transfer goals without relying on high PowerBall jackpots, we have taken steps to enhance strategic marketing and advertising of our products, improve public relations techniques, maintain current agents and recruit new ones, and introduce new games with

the prime objective of attracting new players while retaining our current player base. We believe we have the staff commitment, portfolio of games, and the marketing strategy to achieve this goal.

This request also provides funding for the DC Lottery's current and new games. The present game portfolio consists of Lucky Numbers, DC Four, Quick Cash, Hot Five, PowerBall, and various Instant Ticket games. We plan to launch "EXTRA", an addition to the proven Lucky Numbers and DC Four games, and a new online rapid draw game.

The Lottery's Licensing and Charitable Games Division will continue to protect the integrity of charitable gambling 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 nearly \$67 million for charitable causes. It is anticipated that in FY 2003, an additional \$3.5 million will be raised in support of non-profit groups.

Mr. Chairman, I would like to take this opportunity to express our gratitude again to the DC Lottery's Advisory Council. The members of this council have volunteered their expertise in areas such as public relations, finance, and marketing, business skills that are extremely critical to the operation of an agency such as the DC Lottery. These individuals have exhibited their commitment and realize that the success of the DC Lottery benefits those who live, work and visit the District.

In conclusion, with the enthusiasm, commitment and dedication of the DC Lottery staff, and in partnership with our agents and the support of our vendors, the DC Lottery will enter FY 2003 with 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.