

**PUBLIC OVERSIGHT HEARING ON  
THE FISCAL YEAR 2004 AND 2005 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**

**March 9, 2005, 10:00 a.m.  
Council Chamber, John A. Wilson Building**



**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 Lottery's fiscal year 2004 accomplishments, as well as the developments and outlook for fiscal year 2005. Today, I am accompanied by William Robinson, the Lottery's chief fiscal officer, and Jeffrey Young, the agency's chief operating officer.

The mission of the D.C. Lottery is to raise revenue for District of Columbia residents through the regulation and the operation of a lottery. Since its inception, the Lottery has transferred \$1.26 billion to the city's general fund. As a self-supporting agency that does not spend federal or District tax dollars to operate, our mission also includes regulating charitable gaming within the city. In doing so, we assist non-profit organizations by licensing them to hold charitable gaming events: bingo, raffles, and Monte Carlo Night Parties. The millions of dollars that they raise support programs and services, which provide food, education, housing, and health care assistance, as well as other basic services for those in need.

### **FY 2004 Accomplishments**

During the fourth quarter of fiscal year 2003, the D.C. Lottery completed its strategic plan, which established three goals to accomplish its mission. Then, in fiscal year 2004, we began the implementation process.

The first goal is to continuously increase the transfer to provide funding for District of Columbia services. We accomplished this by having a second consecutive year

of record sales. In fiscal year 2004, the Lottery's revenue was \$241.3 million, and the transfer was \$73.5 million, which exceeded our budgeted target by \$3.3 million.

To reach our goal, the Lottery improved its business strategy to attract new players, encourage agents to sell more lottery products, and develop new and exciting games.

Our key accomplishments in fiscal year 2004 include:

- Launching Hot Lotto<sup>®</sup>, which appeals to players who are interested in million dollar jackpots.
- Upgrading Keno Spin. This added feature to D.C. Keno<sup>™</sup> provides players with the chance to multiply their winnings by up to 10 times.
- Implementing the agent incentive program – “Partners in Success.” This two-part compensation plan motivates agents to sell more by asking for the sale.
- Adding 25 net agents, who sell our lottery products, along with extending the game hours to 1 a.m.
- Raising public awareness about D.C. Lottery winners.
  - In June of 2004, a player won the \$1 million POWERBALL<sup>®</sup> Instant Millionaire TV Game Show grand prize.
  - We received coverage in our local and national newspapers, as well as on our local television broadcast stations.
  - The publicity we garnered increased interest in our games.

Furthermore, improving internal effectiveness and efficiencies is one of the objectives under goal one. To fulfill this objective, the Lottery transitioned from a manual draw process to a computerized draw system, using technological advances to reduce costs and better serve its players. With the new system, the numbers are randomly generated by a computer. More than 20 lotteries use computerized draw systems to select winning numbers for one or more of their games.

The D.C. Lottery's second goal is to continuously improve the ability of employees to be a highly trained, motivated, and effective workforce, one that meets the needs of the internal and external customers. In order to get the agency better aligned with this goal, the agency needed an infusion of new skill sets to include technical analysis, product management, and consumer marketing. Consequently, the agency conducted an organizational assessment and benchmarking study to help evaluate the organization from an organizational, staffing, and effectiveness perspective. As a result of this assessment and benchmarking study, the executive management of the agency worked with the OCFO's office to completely restructure the D.C. Lottery. Some of the outcomes of this intensive exercise include:

- Reducing the workforce;
- Realigning departments to better fit market objectives;
- Adding financial analysis and research skills to the operation;
- Creating a resource management operation at the agency;
- Requiring better performance management reviews; and
- Implementing a project management operating model.

The net effect of these changes on the agency is to increase efficiencies and to speed the time that it takes to create, implement, and deliver new lottery products to the marketplace. The agency is also hopeful that these changes will not only increase accountability, but will also help generate additional revenue for the District's General Fund.

The agency also undertook other steps to support this goal, these include:

- Increased industry recognition
  - *Public Gaming International*, the world's most widely read lottery industry magazine, featured the D.C. Lottery's Executive Director as its cover story for the November 2003 issue.
  - *INTRALOT*, the agency's employee newsletter, was an award finalist in the Corporate Communications category at the North American Association of State and Provincial Lotteries annual conference.
  - Lottery employees were invited to participate as guest speakers at lottery conferences throughout the year.

In fiscal year 2004, the Lottery also focused on the goal of continuously improving the quality and effectiveness of its relationship with key constituents and partnerships with the community. The agency's Advisory Council remains a strong body of local professionals, who are dedicated to strengthening the D.C. Lottery as a business enterprise. We also continued our business relationships with the D.C. Chamber of Commerce and the D.C. Board of Trade. The Lottery also improved its outreach efforts by:

- Creating a Customer Service Department to address the concerns and suggestions of D.C. Lottery players, the public, and other Lottery stakeholders.
- Launching its official website – [www.dclottery.com](http://www.dclottery.com). It is an interactive and informative site that provides winning numbers, highlights winners, and promotes D.C. Lottery contests and promotions.

Additionally, the D.C. Lottery followed through on opportunities within the community to promote the agency and its products. As a community partner, we supported many businesses through advertising and selling lottery tickets at a variety of events hosted by non-profit and community-based organizations. In fiscal year 2004, we participated in many activities, including the following:

- Adams Morgan Day
- Barbecue Battle
- The National Cherry Blossom Festival

We also helped the community by licensing 143 non-profit organizations, a 10 percent increase over fiscal year 2003, to hold charitable gaming events within the District. Those organizations raised more than \$4 million through raffles, bingo, and Monte Carlo Night Party events to support charitable programs and services that undergird the social safety net of the city.

The Lottery is also known for its annual Black History Poster, which it has been producing since 1986. Thousands of copies are distributed to D.C. Public Schools, government agencies, community centers, and the public. The posters are free and have become a mainstay in the community. The theme of the 2004 poster was *The*

*Pearl: A Washington, D.C. Story*. It is about slaves living in the Washington, D.C. area who tried to escape to freedom. For 2005, the poster features the historic case of *Bolling v. Sharpe*. This case is one of five that comprise *Brown v. Board of Education* and ended segregation in D.C. public schools. Along with the poster, we provided study guide questions to the schools. The questions were divided into three categories: elementary, junior high/middle, and high school.

Our fiscal year 2004 achievements were due to the hard work of Lottery employees and Lottery agents. We view our agents as our partners, and focused on assisting them in growing their businesses. Accordingly, the Lottery implemented the “Partners in Success” program that I mentioned earlier, and we also offered agent promotions that coincided with player promotions. For example, with the POWERBALL Sunday promotion, agents had the opportunity to participate in a sales contest in which the prize was a weekend trip for two to the Super Bowl. We also held activities throughout the year that were for agents only, and we installed quick checkers in their stores, which allows D.C. Lottery players to check their tickets, freeing up agents to sell more. D.C. Lottery agents are invaluable to the Lottery’s success. We appreciate them and will continue to develop and implement programs to foster better business relationships with them.

### **FY 2005 Developments**

For fiscal year 2005, the D.C. Lottery has an approved budget of \$247 million and a projected general fund transfer of \$73.1 million. Based on current projections, it will be a challenge for the D.C. Lottery to meet these goals.

We are behind in our sales goals for this quarter because of the following: 1) we have been operating with a reduced workforce, especially in marketing and sales,

as we continued to restructure the agency, and 2) the POWERBALL jackpots have been low. As I have testified in the past, when the POWERBALL jackpots are low, sales are down. When the POWERBALL jackpots are high, sales increase. So far, in this fiscal year, the POWERBALL jackpot has only reached \$100 million or more twice. Typically, we reach our sales goals when the jackpot surpasses \$200 million at least two times during the fiscal year. The Lottery is also behind in its transfer goals because of a lower than expected sales and a high prize payout.

Nevertheless, we plan to implement strategies to move us closer to reaching our goals. We are aggressively recruiting new agents, targeting businesses that can accommodate a social area for D.C. Keno players. We are also utilizing promotions that are designed to increase tickets sales, such as:

- Lucky Red Ball. This promotion offers DC Lucky Numbers™ players the chance to increase their winnings by 20 percent.
- Players also have the chance to win a free HOT FIVE™ ticket with our buy \$5, get \$1 free promotion.

We also formed project teams that brought the POWERBALL 10-50 Jackpot Contest to our players. With that promotion, players had the opportunity to win cash and prizes in a second chance drawing when the POWERBALL jackpot was between \$10 and \$50 million. Now, we will bring this contest back to D.C. Lottery players during the second quarter of this fiscal year.

In addition, one of the Lottery's project teams worked to re-energize our instant ticket product by developing a program to kickoff sales of the Negro Leagues instant scratch ticket, which features four teams: Indianapolis Clowns, Kansas City Monarchs, New York Black Yankees, and Homestead Grays. The top part of the ticket is a detachable collector's item that commemorates one of the four teams.



The remaining part of the ticket is the game play area, where D.C. Lottery players can win up to \$50,000, or one of 260 Negro Leagues jerseys. Players also have the chance to win \$10,000 in the second chance drawing.

The idea for this ticket was conceived in October with the product launch taking place at Union Station on February 23, 2005. The Lottery partnered with the Negro Leagues Baseball Museum to host the museum's traveling exhibit "Discover Greatness!" and Negro Leagues legend John Jordan "Buck" O'Neil was on-hand to promote the ticket and open the exhibit. This event proves that strategic changes in the D.C. Lottery's business model are effective in generating market excitement and channeling it into new products for its players and agents.

As I close, I would like to thank the Lottery's agents, members of the Lottery's Advisory Council, and the Lottery staff for their contributions to the agency's success in fiscal year 2004. I would also like to thank them for their efforts in helping the Lottery meet its fiscal year 2005 goals.

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.

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