

**PUBLIC OVERSIGHT HEARING ON
THE FISCAL YEAR 2013 AND 2014 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

**February 27, 2014 10 a.m.
Council Chamber, John A. Wilson Building**



**Testimony of
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Executive Director
D.C. Lottery and Charitable Games Control Board**

**Jeffrey S. Dewitt
Chief Financial Officer
Government of the District of Columbia**

Good morning Chairman Evans and members of the Committee on Finance and Revenue. I am Buddy Roogow, Executive Director of the DC Lottery and Charitable Games Control Board. I am pleased to have this opportunity to present testimony on the DC Lottery's performance for Fiscal Years 2013 and 2014. With me today are Craig Lindsey, Chief Financial Officer and Ridgely Bennett, Associate General Counsel for the DC Lottery.

Background

The DC Lottery is one of the few city lotteries in the world. Physically, we are located between two very successful and much larger state lotteries (Maryland and Virginia). All three lotteries share similar products and players. DC is so unique that we actually share the same media market with our neighboring lotteries (who have more ad dollars than we have). Share of voice and unique product differentiation has and will continue to be a challenge for the DC Lottery. Industry research has shown that current lottery players have regular buying habits and often have a special time of day when they think about playing the lottery. Since the District's population swells to over a million during the day, the DC lottery has identified the work day as a premiere opportunity to promote and sell lottery. Thus, the opening of a store at Union Station, launching a mobile lottery truck that travels around the city selling and promoting DC Lottery and daytime specials

offered at retail are just a few of the things we have implemented to try and set ourselves apart from the other jurisdictions. In addition, we not only continue to look for new and exciting places to sell our products but also try and weave ourselves into the fabric of the community. After all, our proceeds currently support a plethora of vital city programs and services.

Competitive Environment

The DC Lottery now faces tremendous competition from nearby casinos.

Maryland Live located in Hanover, Maryland operates over 4,300 slots and electronic table games, 177 live table games and 52 poker tables. Hollywood Casino at Charlestown Races located in Charlestown West Virginia offers 3,200 slots, live Blackjack, Craps, Roulette, and live Poker. MGM Resorts International recently received approval to build a \$925 million casino complex right in our backyard at National Harbor in Prince George's County, MD.

In order to successfully compete, the DC Lottery must be able to develop and present itself as the preferred lottery within the region. We must be more creative and innovative with our products and programs. Traditional numbers games (Pick 3, Pick 4, etc.) are older games that have been in decline for several years, not only

in DC but all across the United States. Thus, innovation and technology are paramount to our future success, especially since our current sales portfolio is heavily reliant on the old style numbers games.

Over the course of the last four years, we have worked to develop and enhance our portfolio to emphasize instant ticket games and social setting monitor games, such as Keno and Race 2 Riches ®. While this shift in emphasis has certainly helped, it is not sufficient to maintain and increase sales levels. Consumers are savvier today than in the past. In order to meet our statutory obligation to provide revenue to the District, we must refresh our existing games portfolio in order to deliver the best and most exciting products to the marketplace.

Fiscal Year 2013 Sales and Transfer

As you know, the primary mission of the DC Lottery is to generate revenue for the District's general fund through the sale of lottery products. It is with pleasure that I report the DC Lottery's transfer of \$68.4 million to the District's general fund for Fiscal Year 2013. This amount is the highest transfer in four (4) years, and exceeds the projected transfer by \$5 million. It also represents a \$2 million increase from Fiscal Year 2012 when the transfer to the city's treasury was \$66.4 million. The amount of the transfer is attributed to increased sales for the agency's

growth products. These include the monitor games, DC Keno and Race2Riches, and DC Fast Play, a series of instant games played at agent terminals, which enjoyed a surge in sales of \$3.4 million - more than 50% - over last year's figures.

In order for the DC Lottery to continue to grow, it must maintain its competitive portfolio of games. It is incumbent upon a mature lottery like DC to develop new and exciting games that are attractive to an increasingly diverse player base that has a myriad of other gaming opportunities in which to participate.

The Official DC Lottery Store at Union Station

The continuing decline of the traditional three (3) and four (4) digit numbers games mandates the DC Lottery be as innovative as possible. An example of such innovation is the Official DC Lottery Store at Union Station, which opened in December 2013. In the first year, the actual store sales completely smashed the projected sales goals. We established the Official DC Lottery Store sales goal at \$1.5 million, and this goal was shattered by actual sales of \$1.8 million with a net revenue return of \$522,425. The sales goal for Fiscal Year 2014 is \$1.9 million and we are well on our way to meeting that number. The official DC Lottery Store is a new concept in the market place and is unmatched in our neighboring jurisdictions.

DC Lottery's Lucky Lottery Mobile

Another accomplishment for the DC Lottery during Fiscal Year 2013 is the full implementation of the Lucky Lottery Mobile (LLM). This vehicle is the DC Lottery's version of the food truck and serves as a retailer on wheels. As weather permits, this vehicle travels to lunchtime "hot spots" to make our products easily available to players. Fiscal Year 2013 was a good year for the LLM resulting in total sales of \$23,500 despite only being out a handful of times.

Fiscal Year 2013 In Review

The DC Lottery's successful initiatives during Fiscal Year 2013 include the expansion of the Fast Play Games portfolio. The Fast Play Games are designed to appeal to both numbers players and those who like instant scratch ticket games. In Fiscal Year 2013, actual Fast Play sales reached \$9.1 million, 52% higher or \$3.1 million more than the agency's initial projection.

One of our marketing initiatives is to highlight the DC Lottery Millionaires Club. Last year, the DC Lottery awarded at least \$1 million to six (6) lucky players. So far in Fiscal Year 2014, we have congratulated three (3) new millionaires. We continue to trumpet that the DC Lottery offers the best odds of winning \$1 million

in some of its games. We do seek to celebrate all of our winners. In Fiscal Year 2013, we had a total of 6,739,919 winners of which 4,012,003 or 60% won with scratchers and the remaining 2,727,916 or 40% won with online games. This translates to over 18,000 winners each day. A substantial part of those winnings are reinvested back into our local community by our loyal player base.

Fiscal Year 2013 Challenges

While Fiscal Year 2013 was a year of many highs for the DC Lottery, the year also presented significant challenges for the agency. For example, Mega Millions sales were down 41% (\$4.4 million) due to lower jackpots throughout the year thereby negatively affecting transfer to the general fund. However, Fiscal Year 2014 Mega Million sales are up 101% compared with Fiscal Year 2013 as a result of game matrix changes and substantially increased jackpots. In contrast, Powerball sales in Fiscal Year 2013 were higher by \$3.5 million or 20.6% compared with Fiscal Year 2012 due to higher jackpots last fiscal year. Unfortunately, Powerball sales are down this fiscal year compared to last due to smaller jackpots.

Another challenge that had a huge impact during the transition from Fiscal Year 2013 to Fiscal Year 2014 was the federal government shutdown in October 2013.

Lottery sales were negatively affected and forced the DC Lottery to suspend cashing lottery prizes between October 12 and October 16. Over the period of the shutdown, total lottery sales were \$9.4 million compared with \$11.2 million during the same time frame in the preceding year, a decline of \$1.7 million or 15%.

During the government shutdown period, the DC Lottery retailers had less traffic in the stores due to commuters not coming into the city. These lost sales cannot be recovered since players either purchased their tickets in other jurisdictions or did not purchase them at all.

The biggest challenge for the DC Lottery during Fiscal Years 2013 and 2014 is the lack of an instant ticket contract. By way of background, the DC Lottery's instant ticket contract expired in July 2013 disrupting several years of sales growth for the product line. Lottery industry studies indicate consumers prefer games that offer short odds and a better chance of winning. The instant tickets are a reflection of that demand. Since the launch of the DC Black Instant Ticket in 2010, the DC Lottery has continued to create new and aggressive sales and marketing strategies, as well as leverage opportunities to increase sales. The DC Lottery launched the \$1Million Black II Ticket in March 2013, and awarded one of two top prizes to a player in May 2013. Several tickets during Fiscal Year 2013 offered a second chance drawing component that extended game play and engagement with players. A couple was awarded the second chance prize of \$1 million for the DC Gold

Instant Ticket in June 2013. We are currently in the process of developing a comprehensive program that will address the acquisition and distribution of instant tickets while staying consistent with all applicable DC laws, and we will update the Council in the upcoming weeks.

Fiscal Year 2014 Developments

There are other factors causing major shifts in the way we forecast sales and the projected transfer for fiscal year 2014. As the agency plans ahead, we must take into consideration the challenges presented by increased gaming opportunities in the immediate DC environment. As mentioned earlier in my testimony, the increasing availability of casino gambling in the region will have significant impact on the DC Lottery. Such competitive forces require the DC Lottery to continually update and enhance its game portfolio to maintain its core base.

Another initiative is to implement and maintain a Players Loyalty Program. In the age of digital marketing, this tool will offer valuable participation and player data. As we expand the DC Lottery portfolio of games, the loyalty program will allow the DC Lottery to engage directly with players based on their preferences and provide consistent value returns to members.

Acknowledgements

I would be remiss if I did not thank each of the 503 DC Lottery retailers. It is because of our dynamic partnership with these small business owners that the DC Lottery has been successful despite the challenges confronting us. They continue to serve as great ambassadors for the DC Lottery by keeping customers informed of the newest games and promotions, providing excellent customer service and player education, and ensuring a superior player experience for every DC Lottery customer.

Most importantly, I would like to thank our players for their loyalty. They, along with the hardworking staff of the DC Lottery, make the agency successful. I appreciate their efforts as we move forward in Fiscal Year 2014. Again, thank you for this opportunity to testify on the DC Lottery's performance for Fiscal Years 2013 and 2014. This concludes my testimony, and I am happy to answer any questions the committee may have at this time.