

**PUBLIC OVERSIGHT HEARING ON  
THE FISCAL YEAR 2012 AND 2013 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 7, 2013 10 a.m.  
Council Chamber, John A. Wilson Building**



**Testimony of  
Buddy Roogow  
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 Buddy Roogow, executive director of the D.C. Lottery and Charitable Games Control Board. Today, I am testifying about the D.C. Lottery's Fiscal Year 2012 accomplishments and the progress of the agency in Fiscal Year 2013. The D.C. Lottery's Agency Fiscal Officer Craig Lindsey, and Associate General Counsel Ridgely Bennett are here with me this morning.

### **FY 2012 Sales and Transfer**

First, I'd like to thank the committee for this opportunity to update you on our progress, and to answer any questions you may have as a result of my testimony.

Fiscal Year 2012 delivered a significant reversal of declining sales and revenue trends for the agency. It was also a year defined by innovation, marked by a determination to deliver results, and influenced by the foundation of three decades of generating revenue for our nation's capital.

The evidence of our successful efforts is visible in our Fiscal Year 2012 performance, where the agency produced another sales gain, reaching nearly \$250 -- an increase of more than \$18 million over the prior Fiscal Year 2011 total of \$231.5 million. The reversal of the downward sales trend can be attributed largely

to the instant scratch ticket product line, a new instant online game, and the execution of innovative sales and marketing strategies.

While we are proud of the work that fed the FY2012 sales increase, it's with greater pleasure that I announce that our efforts also produced an increase in the funds we provide to the city. Our FY2012 transfer to the city's treasury was \$66.4 million—an increase of \$4.1 million over the prior FY2011.

How we reached and surpassed our sales and revenue goals was not luck. This achievement required innovative strategies developed by our staff at the D.C. Lottery and took a lot of hard work. The D.C. Lottery's instant scratch ticket product line continues to exceed our expectations. Sales for D.C. scratchers were the best in D.C. Lottery history at \$59.9 million, representing a \$3.7 million increase over Fiscal Year 2011. Highlights in Fiscal Year 2012 included the launch of Money Money Money – our third \$20 scratch ticket with two \$1 million top prizes; and our licensed products Cadillac Riches, Washington Capitals, and Monopoly.

Another notable game launch in Fiscal Year 2012 was D.C. Fast Play Jackpot—a progressive jackpot game offered through the D.C. Fast Play line-up of games and only in Washington, D.C. At the close of FY12, the D.C. Fast Play franchise of instant win terminal-generated games reached a 175% growth in sales, climbing

from just over \$2 million in FY11 to \$5.7 million in FY12. This game category allows a continuous supply of new offerings. Games are added and removed from the lineup according to performance and player demand. With the addition of the progressive jackpot game to the portfolio, we expect this category to continue to climb.

Players are responding favorably to D.C. Lottery products and promotions. And, they are winning. In Fiscal Year 2012, \$137 million was awarded in prizes—an \$11 million or 9.1% increase from the year prior. And D.C. Lottery retailers earned over \$16.4 million in commissions in FY12, an increase of \$1.6 million or 12% over last year's figures.

We continued to create new and aggressive sales and marketing strategies, as well as leverage unplanned opportunities to increase sales. They included:

- Continuing to provide a second chance drawing component with instant tickets—extending the game play and engagement with our players.
- Creating experiential prizes that attract the broadest audiences to our products. These prize experiences – like “Washington Cap for a Day” or “a trip for two to an away game with the Washington Wizards” – can only be attained through winning with our games. Their “experience” value far

outweighs their cash value—these are once-in-a-lifetime opportunities for our players.

- Publicizing and supporting the record \$656 million Mega Millions jackpot—garnering local and national coverage.

Much of our FY12 success can be attributed to our push to seek new audiences, to provide games that are entertaining as well as rewarding to play, and to brand the D.C. Lottery as a committed business and community partner. While all of this is cause to celebrate, these numbers further serve to encourage the ongoing efforts to be innovative in our approach, passionate in our execution, and unflinching in our pursuit of excellence in all that we do.

### **FY 2013 Developments**

Through January 2013, revenue transfer to the city is ahead of the same period in FY12 even though overall sales are trending slightly below this same period last year. During the second half of this fiscal year, we anticipate sales trends to progress upward as a result of new game launches and promotions that will impact overall outcomes.

The D.C. Lottery has initiatives underway to support the anticipated upward sales trend. Instant ticket games will continue to play a role in growing sales. We expect the Fast Play category to surpass projected sales. Additionally, our monitor games,

Keno and Race2Riches, are expected to deliver above their projections. But, there are some inherent challenges that persist and must be taken into account as we consider our sales and revenue projections.

A recent Washington Post article that we are a relatively small and exclusively urban jurisdiction whose demographics have changed dramatically over the last decade. This is our reality. It is, therefore, a foregone conclusion that the competition for the disposable income of local consumers is steep and we -- like other product driven-companies -- must continually adjust and refine our product offerings to meet a new standard of demand.

We continue to witness the slow but steady decline of our numbers games, which for decades were in high demand and have been our greatest source of revenue. Compounding this decline is what the lottery industry refers to as “jackpot fatigue.” Games like Powerball and Mega Millions have been weakened over the years—an issue that’s currently being analyzed within the industry. Here in the District of Columbia, jackpot fatigue is further exacerbated by the loss of selling Powerball exclusively, along with the subsequent lost revenues from cross-selling.

While this is a cause for concern, we’ve continued to develop strategies to compensate for the loss in the numbers category while maintaining a consistent level of revenue through our growth products. We’ve refocused our efforts to

become less reliant on the numbers and jackpot categories and are diversifying the portfolio to maintain player participation while attracting a new consumer.

We expect our instant scratch ticket category to continue on an upward trajectory. These games give us the necessary flexibility to meet the demand for new and interesting price points and prizes through branded/licensed products and second chance opportunities.

We've expanded and enhanced our monitor games, upgraded the play styles, and continue to infuse promotions that reward play through increased prize amounts. These games have shown that interactive play, especially in social settings, is a key component in both future sales growth and retailer recruitment.

To meet and surpass projections, the D.C. Lottery is:

- Strategically adding new D.C. Fast Play games. This game is designed to appeal to both numbers players and those who like instant scratch ticket games. We are projecting sales to reach over \$6 million in Fiscal Year 2013, continuing its pattern of growth.
- Launching new instant ticket games like our Betty Boop Scratcher. Over five months, we launched five different scenes featuring Betty Boop for Halloween, the Fall, Christmas, New Years', and Valentine's Day. This is an

example of a highly-successful licensed product that is in the top five of best-selling Scratchers in Washington, D.C.

- We just recently launched the first-ever Soul Train Scratcher with much fanfare at Union Station. This game is projected to also join the top five best-selling Scratchers category.
- We're building off of the impressive success of "The Black Ticket," the agency's first Scratcher with a \$1 million top prize, by launching the Black II ticket. The new Scratcher still offers two \$1 million top prizes and an even larger pool of secondary prizes.
- Also coming early summer is a refresh of our jackpot game, Hot Lotto. Players will have a chance at even bigger prizes, more frequently, and with better odds of winning.
- Players should also be on the look-out for new instant-win games –Tap-n-Play. The new games will be featured on our MP's, the new self-service equipment accessible in about 65 locations across the city.
- Also, on the horizon is a new national, multi-state game. Last fall, I was elected president of the National Association of State and Provincial Lotteries, which consists of local government-sponsored lottery and gaming entities throughout North America. In that capacity, I am working with a group of nationally recognized lottery industry experts on the development



of a new game that will offer the excitement of jackpot games, the opportunity for engagement through social media channels, and the instant gratification of scratch ticket games.

- And, the jewel in our FY13 crown is the opening of the official D.C. Lottery Store in Union Station. This represents a unique partnership between the agency and an existing retailer. Using an industry model, we recently opened our doors to the more than 32 million visitors to Union Station each year. The official D.C. Lottery Store is expected to produce sales in excess of \$2 million annually.

In closing, I would like to thank all D.C. Lottery retailers. Many of our retailers are small business owners who play an integral role in the fabric of this community. They, along with the staff of the D.C. Lottery, make this agency successful. I appreciate their efforts as we move forward in FY 2013.

I would also like to thank our players for their loyalty. We will continue to deliver new and exciting games and promotions, and hope that they continue enjoying D.C. Lottery games. And, I invite the public to visit our award-winning website, [www.dclottery.com](http://www.dclottery.com), to learn more about the agency. The achievements shared today are a measure of our professional ability; the challenges map the work ahead.

Mr. Chairman, thank you for this opportunity to present testimony on the D.C. Lottery's performance. We are pleased to respond to questions.