

PUBLIC OVERSIGHT HEARING

ON

**CA 20-99: PROPOSED CONTRACT NO. CFOPD-13-C-003 WITH
SCIENTIFIC GAMES INTERNATIONAL, INC. TO PROVIDE INSTANT
TICKET PRODUCTS AND SERVICES TO THE D.C. LOTTERY**

**Before the
Committee on Finance and Revenue
Council of the District of Columbia**

The Honorable Jack Evans, Chairman

**June 27, 2013 10 a.m.
Room 120
John A. Wilson Building**



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

and

**Joseph A. Giddis, Director
Office of Contracts, Office of the Chief Financial Officer**

BUDDY ROOGOW
EXECUTIVE DIRECTOR
LOTTERY AND CHARITABLE GAMES CONTROL BOARD

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 will provide an overview of the proposed instant ticket contract with Scientific Games. At the conclusion of my testimony, Joseph Giddis, the OCFO's Director of the Office of Contracts, will provide testimony on the procurement process.

The instant ticket game contract will provide instant tickets ("scratch tickets" or "scratchers") and services to the D.C. Lottery and Charitable Games Control Board ("DCLB"). The contract is important because instant ticket sales account for nearly 25% of total lottery sales and provide significant revenue to the General Fund.

Instant ticket sales are also an important source of revenue to the over 500 licensed retail locations that sell D.C. Lottery products. Many of our retailers are small business entities located in the District who rely heavily on lottery sales to make a profit. Lottery retailers earn a 5% commission on each instant ticket sold by the

retailer and a 3% commission on lottery prizes paid by the retailer, totaling more than \$4.42 million in commissions on instant ticket sales.

If the DCLB is unable to sell instant tickets, the revenue loss to the District would be considerable. The chart below illustrates that in FY12 instant ticket sales totaled almost \$60 million generating over \$5.7 million in transfer to the General Fund. Also, since the great majority of our core instant ticket players buy our numbers and monitor games too, we estimate the impact on our transfer will be further compounded by a corresponding loss in sales in our other lottery games. We estimate non-instant game sales will be reduced by 10% or nearly \$19 million. This sales loss will result in an additional transfer reduction of over \$6 million bringing the total reduction in transfer to the General Fund to nearly \$12 million. Retailer commissions would also drop further due to the anticipated decline in sales of our non-instant products. This reduction is estimated at nearly \$1.25 million yielding a total commission decline to the retailers of almost \$5.7 million.

	Sales	Transfer	Retailer Commissions
Total (FY12)	\$249,632,088	\$66,403,850	\$16,404,439
Instant	\$59,939,600	\$5,709,000	\$4,423,493
Est. Loss (Other Games)	\$18,969,249	\$6,069,485	\$1,246,554
Total Reductions	\$78,908,849	\$11,778,485	\$5,670,047
Total Reductions (%)	31.6%	17.7%	34.6%

Finally, lottery retailers would also be negatively impacted by sales declines in their traditional non-lottery sales. Fewer customers buying lottery products means fewer sales of their non-lottery inventory resulting in further declines in their overall business viability.

The production of instant tickets is complex and instant tickets must be produced in specialized and highly secure facilities. The complexity and security associated with instant ticket production is necessary in order to ensure the integrity of the instant ticket games.

There are no instant ticket production facilities located in the District.

Currently, there are only three production facilities located in the United States—Scientific Games (Georgia), Pollard Banknote (Michigan) and GTECH Printing (Florida).

With your approval, Mr. Chairman, I would now like to turn to Mr. Giddis to provide testimony on the procurement process.

JOSEPH A. GIDDIS

DIRECTOR, OCFO OFFICE OF CONTRACTS

Good morning Chairman Evans and members of the Committee on Finance and Revenue. I am Joseph Giddis, Director of the OCFO Office of Contracts. Thank you for providing me with the opportunity to provide testimony on the proposed instant ticket contract.

RFP No.CFOPD-13-R-003 for instant tickets and related services was issued by the OCFO on behalf of the DCLB on October 22, 2012. Proposals from interested vendors were due December 17, 2012. The OCFO received two (2) proposals in response to the RFP.

One of the proposals was rejected as being non-responsive because it failed to include a subcontracting plan as required by D.C. Official Code § 2-218.46(d), which states “[b]ids or proposals responding to a solicitation, including an open market solicitation, shall be deemed nonresponsive and shall be rejected if the law requires subcontracting and the prime contractor fails to submit a subcontracting plan as part of its bid or proposal. . .” The vendor that submitted the rejected proposal had the full opportunity to contest the disqualification of its proposal

when it filed a protest with the Contract Appeals Board (“CAB”). At the request of the rejected vendor, the protest was dismissed by the CAB.

The remaining proposal from Scientific Games which included the required subcontracting plan at the time of submission, was evaluated by a Source Selection Evaluation Board (“SSEB”) comprised of DCLB employees. The proposal was also independently reviewed by the OCFO Contracting Officer. Both the SSEB and the Contracting Officer found the Scientific Games proposal to be acceptable.

The Scientific Games contract price was determined to be fair and reasonable based on competitive pricing information and market research of contract prices for the same or similar services.

In order to meet the RFP requirements to subcontract with CBEs, Scientific Games reviewed the online Department of Small and Local Business Development (DSLBD) certified business directory to identify potential CBEs that could provide the contractually required subcontracted goods and services. Scientific Games engaged Aspen of DC, a CBE whose core services include management consulting and outsourcing, to assist with identifying potential CBE businesses that could provide subcontracting services to support the contract.

Scientific Games' efforts focused on locating CBEs who could provide goods and services in non-proprietary areas such as real estate services, waste management, office supplies, staffing services (temporary), copier service and maintenance, electronic security services, management consulting and outsourcing services, transportation and delivery services, electrical and mechanical contracting, janitorial services, and non-ticket printing services.

Due to their proprietary, customized, and confidential nature, Scientific Games could not include the following products or services in its subcontracting plan: ticket paper stock, printing ink, ticket printing presses, sales, marketing support, licensing agreements and operational staff.

Twenty-two CBEs were vetted through Scientific Games' due diligence compliance review process to ensure that each business met the legal and financial qualifications to perform the subcontracting work identified. This compliance process was conducted with all potential vendors, CBE or non-CBE, with which Scientific Games considered a subcontracting relationship. At the end of the compliance review or vetting process 14 CBE vendors were approved and of that number ten were selected as potential subcontractors.

Scientific Games sent out written Requests for Quotes (RFQ)s and/or e-mail notifications to ten CBEs at least ten (10) days prior to the proposal due date to allow the CBEs sufficient time to participate effectively and express their interest in the subcontracting opportunities that were identified. Scientific Games conducted a thorough evaluation of each CBE's response to the RFQ or e-mail notification and conducted one-on-one discussions and/or negotiations with CBEs where additional information was needed to make a final determination. Scientific Games determined that all of its proposed CBEs were compliant in obtaining bonding, lines of credit, or insurance.

Some bids received by Scientific Games from CBEs were not acceptable because their price was too high. As evidenced in the subcontracting plan, Scientific Games was able to identify a number of CBEs that were competitive.

As mentioned by Mr. Roogow, there are no instant ticket manufacturing facilities located within, or near to the District. The tickets will be manufactured at Scientific Games' production facility located in Alpharetta, Georgia. CBE participation will be at least 17% (\$1.733 million) of the total contract value. Our office conducted a thorough review of the Scientific Games subcontracting plan

and modification request and worked with the vendor and the DSLBD office to ensure the maximum CBE participation.

The contract requires Council approval because it will be a multi-year contract (four (4) year base period with two (2) one-year option periods) and the contract will be in excess of \$1 million (\$9.73 million covering the four (4) year base period of the contract).

Mr. Roogow and I are pleased to answer any questions you may have relating to the proposed contract.