

**PUBLIC OVERSIGHT HEARING**

**on:**

**OFFICE OF THE CHIEF FINANCIAL OFFICER**

**and the**

**DC LOTTERY AND CHARITABLE GAMES  
CONTROL BOARD**

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

**The Honorable Jack Evans, Chairman**

**December 13, 2012 11 a.m.  
John A. Wilson Building  
Council Chambers**



**Testimony of  
Buddy Roogow  
Executive Director  
D.C. 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 DC Lottery and Charitable Games Control Board. Today, I am pleased to testify about the DC Lottery's Fiscal Year 2012 accomplishments and the progress of the agency in Fiscal Year 2013. Additionally, I am testifying about several personnel issues related to lottery operations. The DC Lottery's Chief Operating Officer Tracey Cohen and Associate General Counsel Ridgely Bennett are here with me this morning.

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

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

The DC Lottery remains the most unique lottery in the country, and how we compete in the marketplace—a city lottery sandwiched between two large state lotteries--requires innovative strategies and execution. While challenges persist as a direct result of our positioning and the economy, we have made strides, the results of which have had a positive impact on our Fiscal Year 2012 sales and transfer.

Fiscal Year 2012 marked the 30<sup>th</sup> Anniversary of the DC Lottery. We are proud of the three decades of generating revenue for our nation's capital, often with great success, but sometimes through fiscal challenges. Fiscal Year 2012 can be celebrated as a breakout year for the lottery as we experienced substantial increases in both gross sales and transfer.

The economic recession in recent years has had a negative effect on our sales. Additionally, we continue to witness the slow but steady decline of our numbers games, which for decades has been our greatest source of revenue. Compounding this decline has been the loss of selling Powerball exclusively in Washington, DC. As you know, both Maryland and Virginia now sell Powerball. While this has been cause for concern, we have continued to develop strategies to compensate for the loss in the numbers category while maintaining a consistent level of revenue through our growth products. Our instant scratch ticket category continues on an upward trajectory, breaking previous sales records year-over-year. We have expanded and enhanced our monitor games and upgraded the play styles. These games have shown that interactive play, especially in social settings, is a key component in future sales growth and retailer recruitment.

In response to our challenges, we continue to do all we can to maintain our numbers portfolio in this era of declining interest and play as we strengthen our new interactive game portfolio to try to reach a broader demographic with exciting new games and features. The lottery consumer today is smart and savvy and seeks entertainment as well as reward when purchasing a lottery product.

Charts 1 through 4 illustrate sales trends and the challenges they bring. Chart 1 clearly shows the sales decline experienced from FY2006 to FY2010. This decline can be attributed to the DC3, DC4 and Powerball games as well as the recession.

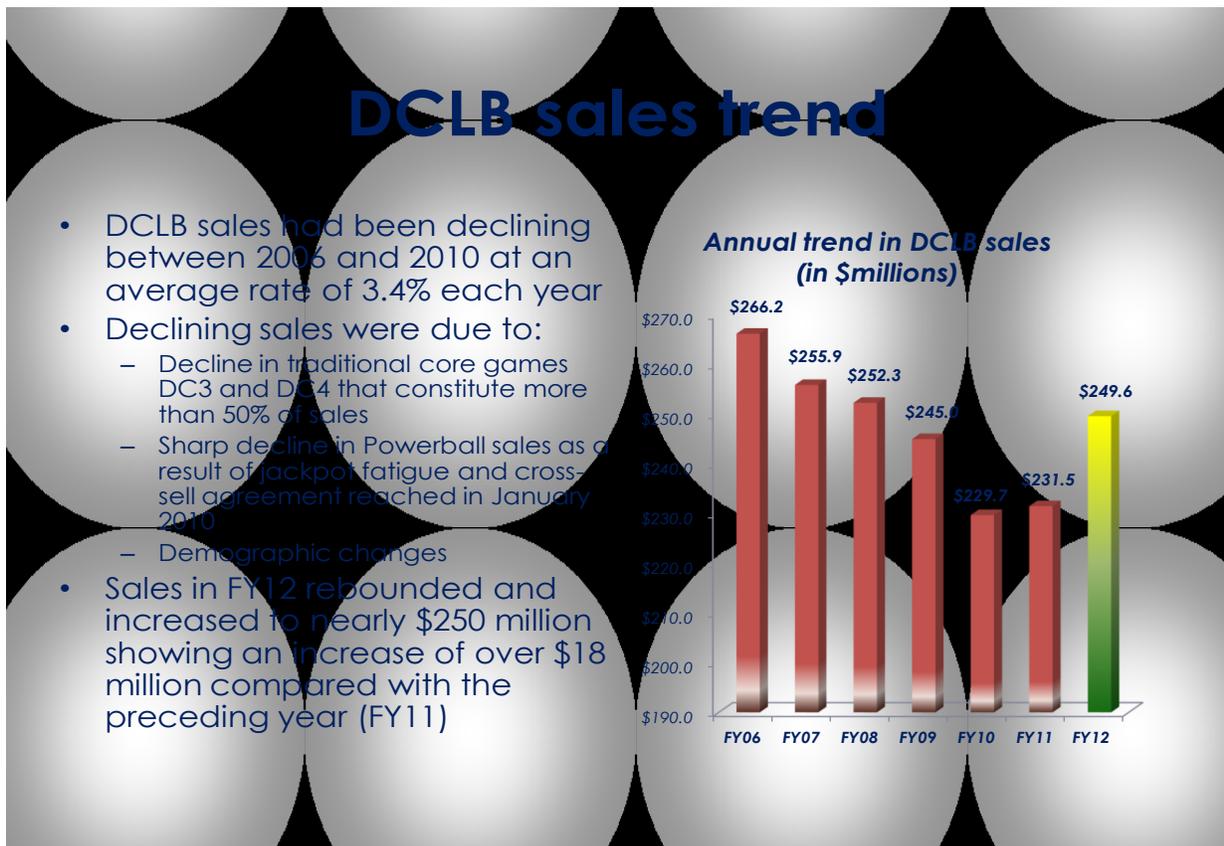


Chart 2 illustrates the transfer trend from the high experienced in FY2006 to the low in FY2011. Thanks to increased sales of our new games, and despite high payouts to players, the lottery transfer increased in FY2012.

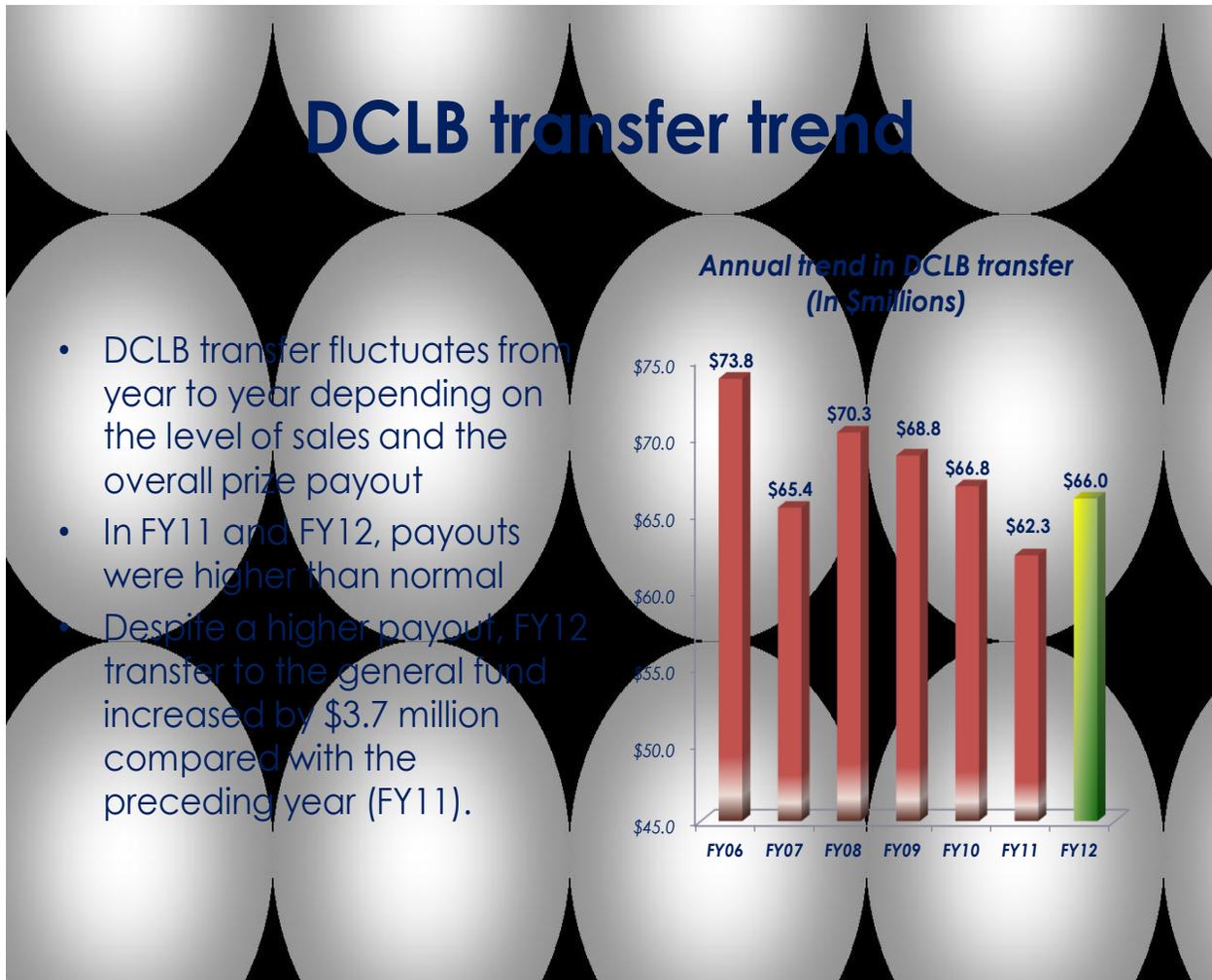
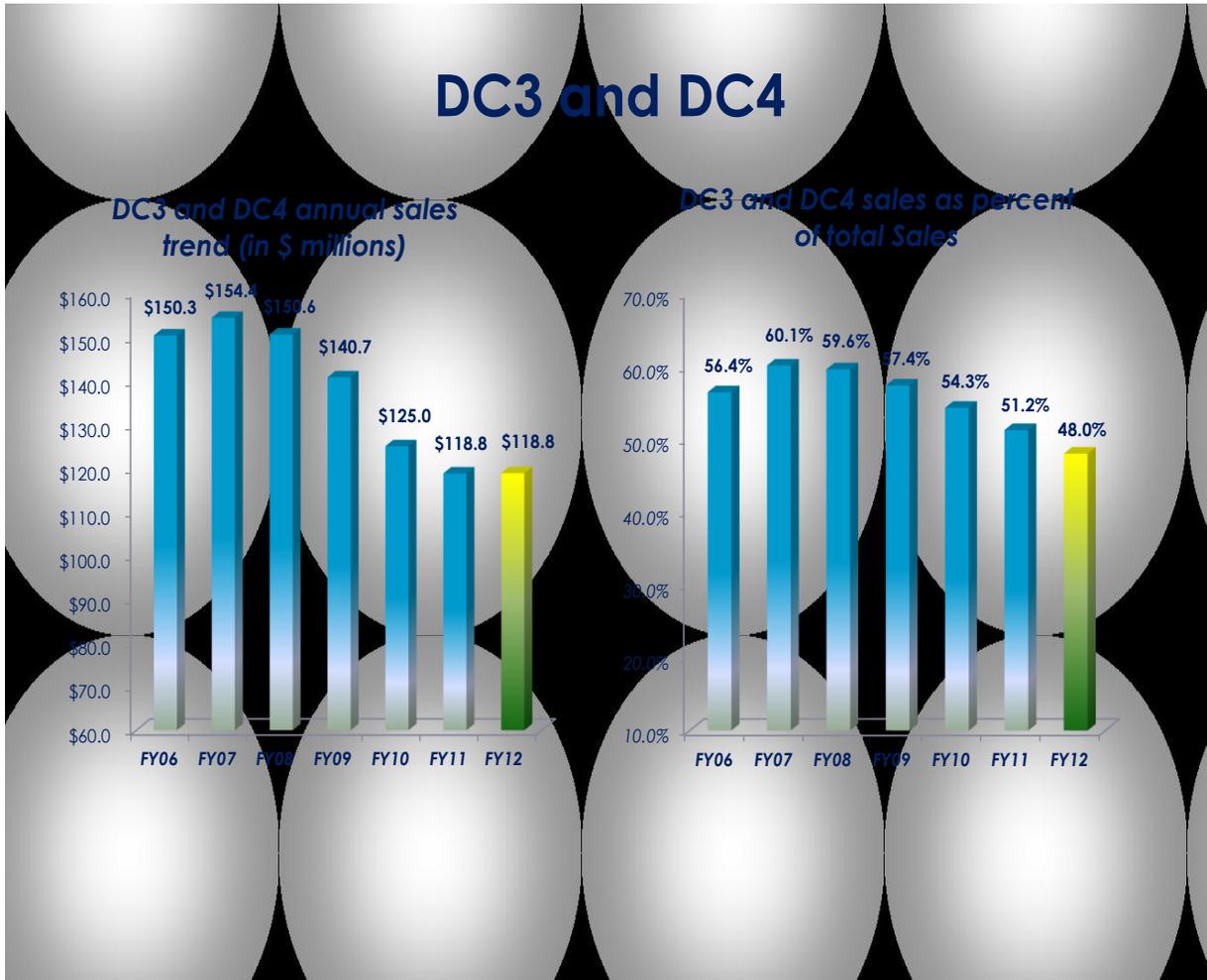
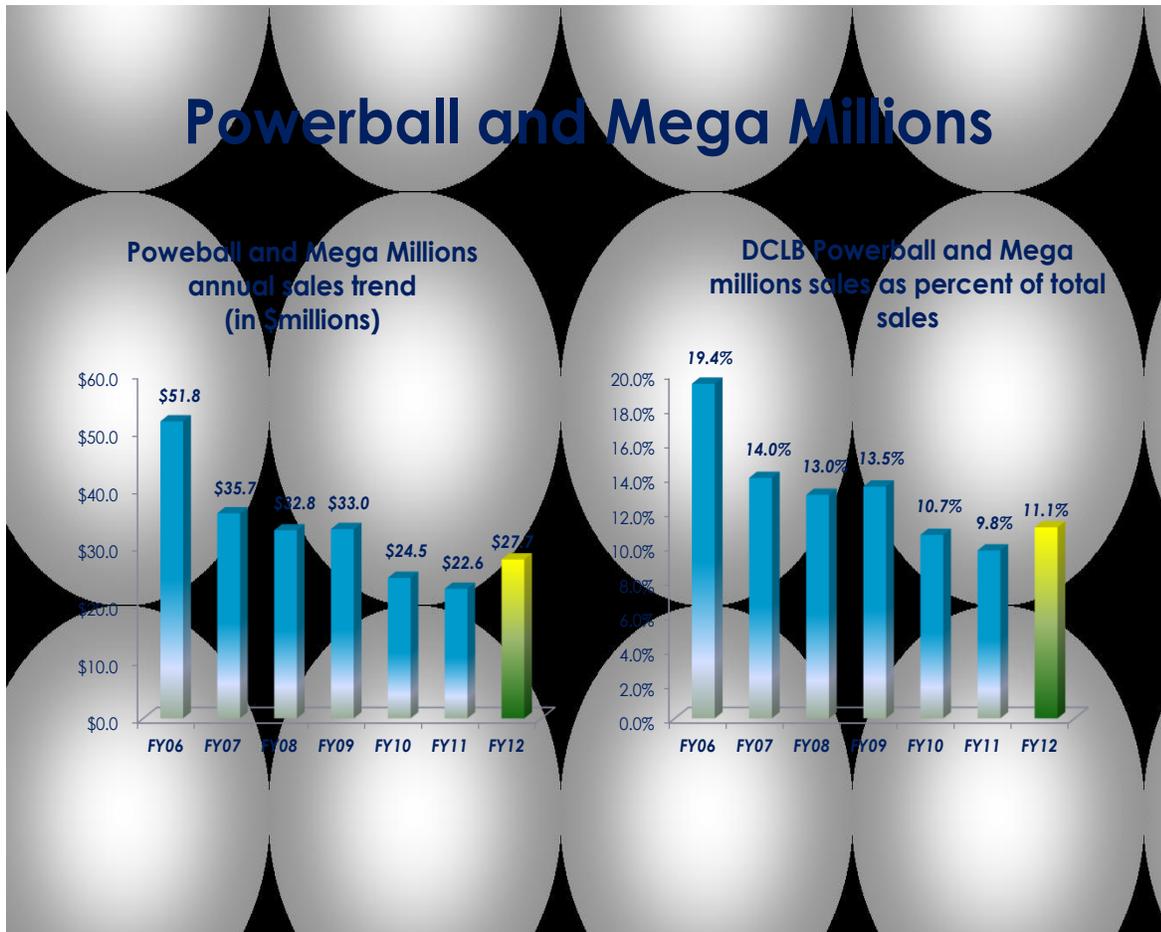


Chart 3 shows the dramatic decline in DC3 and DC4 sales since FY2006, which has had a disproportionate effect on our transfer.



And Chart 4 illustrates a substantial decline in the Powerball/Mega Millions category due to a combination of jackpot fatigue and the loss of our exclusive franchise to sell Powerball in the region.



In summary, the loss of sales and, thereby, transfer revenue in our traditional numbers games must be made up through strategic development of other games, expansion of our instant product and smart execution of promotions.

The evidence of our successful efforts is illustrated by our Fiscal Year 2012 performance, where the agency produced sales of nearly \$250 million -- an increase of more than \$18 million over the Fiscal Year 2011 total of \$231.5 million. The reversal of the downward sales trend can be largely attributed to the instant scratch ticket product line, a new instant online game called Fast Play, expansion of our monitor games Keno and Race to Riches, and the execution of innovative sales and marketing strategies that have proven to have a positive impact on revenue. The sales decline, evident since FY2006 was finally reversed in FY2011 with continued growth in FY2012.

While we are proud of the work that led to the FY2012 sales increase, I am most pleased to tell you that our efforts have also produced a substantial increase in the transfer to the General Fund. We estimate that the FY2012 transfer to the city's treasury will be nearly \$66 million—an increase of \$3.7 million over FY2011.

Contributing to that success, the DC Lottery's instant scratch ticket product line experienced another record-breaking year and continues to exceed our expectations. Sales for scratchers were the best in DC 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 DC Fast Play Jackpot—a progressive jackpot game offered only in the District. In FY12, the Fast Play game category generated \$5.7 million in ticket sales—a \$2 million increase over FY11. The Fast Play game is sold like a numbers game, but plays like an instant ticket with the added capability of rapidly creating new games with different play styles, price points, and prize levels. With the addition of the progressive jackpot game to the portfolio, we expect this category to continue to climb.

DC Lottery players also experienced more rewards. In FY12, they won \$9.5 million more than in FY11, and retailers received \$1.2 million more in commissions in FY12. We continue to create new and aggressive sales and marketing strategies and leveraged other opportunities to increase sales. They include:

- Providing a second chance drawing component with instant tickets;
- Creating experiential prizes that attract the broadest audiences to our products;
- Publicizing and supporting the record \$656 million Mega Millions jackpot; and
- Garnering free media coverage of DC Lottery winners, agents, and games.

## **FY 2013 Developments**

The first two months of this fiscal year have seen an overall sales and transfer increase compared to the same period last year. Sales are higher by 2.1% or more than \$800,000 in Fiscal Year 2013, and transfer is higher by \$1 million or 8.6%.

The DC Lottery has initiatives underway to maintain our upward sales trend. Instant ticket games will continue to play a role in growing sales. When the Instant Ticket RFP is awarded, we expect that we will be able to offer even more new games with exciting themes that will allow us to expand our product line and increase our instant scratcher sales. It has been suggested by some that the lottery is considering selling these games on the internet. This is patently false. Selling any of these games on the internet is not being considered. The RFP does not permit or authorize the sale of instant tickets or any other lottery product for that matter on the internet. Only the traditional means of selling any and all of our games through our retailer network will be permitted.

We expect the Fast Play category to surpass projected sales. Our monitor games, Keno and Race2Riches, are expected to deliver above their projections. These efforts are absolutely necessary in order to offset declines in our traditional

numbers games. To accomplish this, the DC Lottery can also report the following initiatives:

- Strategically adding new 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 on its growth pattern.
- Opening of the official DC 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. Our goal is to bring our product line to new consumers who appreciate and embrace the easily available service.

I would like to publicly thank all DC 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 DC Lottery, make this agency successful. I appreciate their efforts as we move forward in FY 2013.

We will continue to deliver new and exciting games and promotions, and hope that our loyal players will continue enjoying DC 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.

I would now like to provide information in reference to the personnel issues that have been raised concerning the lottery. Recently, I have been the subject of allegations concerning my conduct as Executive Director of the DC Lottery which I would like to briefly address here.

When I joined the DC Lottery as its Executive Director in December, 2009, I found an organization in decline. Sales had been dropping for four consecutive years, morale was low and communication among and between divisions was poor to non-existent. The Lottery had been restructured several years previous with lasting scars. I had been a lottery director for 13 years in Maryland and was confident in my performance as well as my ability to manage and rally employees. I wanted to raise sales and have everyone be a part in it. To that end, we are enjoying success with sales rising for two consecutive years with this past fiscal year experiencing over an 8 percent increase thanks to the hard work of our employees.

During my tenure at the D.C. Lottery, I have consistently sought out employees for conversation and tried to encourage them in their areas of expertise. I want the Director to be a familiar presence and resource for DCLB employees. I seek to provide additional training in ways that I felt might increase sales. I want everyone

to have an opportunity to succeed. Did I try to attract and recruit people within the industry for open and advertised positions? Of course, but I do not have hiring or firing authority. That resides in the OCFO's Division of Human Resources.

As to allegations of my personal conduct, there were two complaints early in my tenure. Although it would be inappropriate for me to comment on their specifics, I can say that these matters were long ago resolved to the satisfaction of all parties directly involved.

The DC Lottery is composed of highly competent employees who are innovative in their performance. Our current employees have embraced change making us more able to compete with the powerful lotteries surrounding us on our borders, Maryland and Virginia. The lottery hopes to continue to be a positive presence in our community and provide an increasing revenue stream to the District.

### **Conclusion**

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