

**PUBLIC OVERSIGHT HEARING ON
THE FISCAL YEAR 2015 AND 2016 SPENDING AND PERFORMANCE
BY THE OFFICE OF THE CHIEF FINANCIAL OFFICER**

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

The Honorable Jack Evans, Chairman

**March 4, 2016 10:00 a.m.
Council Chamber, John A. Wilson Building**



**Testimony of
Tracey Cohen, Interim Executive Director
D.C. Lottery and Charitable Games Control Board**

**Jeffrey DeWitt
Chief Financial Officer
Government of the District of Columbia**

Chairman Evans and members of the Committee on Finance and Revenue—Good Morning, I am Tracey Cohen, the Interim 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 operations for Fiscal Years 2015 and 2016. Here with me are Interim Chief Operating Officer and Agency Fiscal Officer Craig Lindsey, Associate General Counsel for the DC Lottery, Ridgely Bennett, and Best Practices Consultant Herb Delehanty. Delehanty Consulting, LLC was commissioned to perform a Best Practice study for the DC Lottery as stated in the CFOs Strategic Plan. At this point, I would like to turn it over to Mr. Delehanty so he can present to you and the committee his findings.

Before I begin my testimony, I would like to publically thank Chief Financial Officer Jeffrey DeWitt for initiating an independent best practice evaluation of the DC Lottery. While acknowledging the many contributions of my predecessor Buddy Roogow, I am proud that the DC Lottery is one of the most successful lotteries in the United States, ranking an impressive 7th out of 45 lotteries in the most important area of financial measurement—operating income per capita. The best practices study indicates that the DC Lottery is truly a world class lottery. The study involved evaluations of more than 50 organizational processes, practices and systems. The DC Lottery has been lauded for many of its solid processes, programs and systems. Specifically, ten processes or systems were noted as best practices while thirty-one others were highlighted as exemplary.

In addition to the best practice study, the DC Lottery's solid financial and operating practices were audited independently. First, relating to our instant ticket policies and procedures, two

independent, task specific audits were conducted in FY15. One by the Office of Integrity and Oversight and the other by the Office of the Inspector General. Neither organization identified any weaknesses in the Lottery's instant ticket processes and procedures in their respective reports. Second, the DC Lottery was audited by the independent CAFR Auditors for Fiscal Year 2015. The CAFR contained no findings pertaining to the DC Lottery.

In 2015, the DC Lottery received accolades for our products and our advertising efforts. The DC Lottery's *Codebreaker* scratch ticket (which was a partnership with the International Spy Museum) was recognized by the North American Association of State and Provincial Lotteries (NASPL) as a finalist for Best New Instant Game of the year. Our "*Unless I Win the Lottery*" advertising campaign won NASPL's Best Integrated TV Campaign award. The DC Lottery also received an award from an industry trade publication *Lafleurs Magazine* for the same advertising campaign. The DC Lottery also won a Telly Award, a national award that honors the best in local, regional and cable TV commercials and programs. Finally, episodes of the DC Lottery's amusing *Department of National Insecurity* radio won an ADDY award from the DC Ad Club.

Although Fiscal Year 2015 was full of challenges, we persevered and emerged a stronger lottery. We were resolute in our determination to overcome the adversities before us and our success is in the performance numbers. We proudly awarded \$115.2 million in prizes to players; paid \$13.7 million in retailer commissions; and most significantly, FY15's transfer of \$55.5 million to the District's General Fund exceeded FY14's transfer by \$600,000.

Total lottery sales for FY16 as of February 16, 2016 totals \$86.8 million, compared to \$76.8 million through the same period last year. While our numbers games sales are slightly down by

about \$1.1 million or 1.7% from last year, our instant ticket sales are up significantly by \$11.6 million or 193.4%. The significant increase is attributed to the return of instant tickets to our game portfolio.

Much of our recent success can be attributed to our goal of attaining greater efficiencies within the organization. We have reduced operating expenses, streamlined our business operations and crossed trained staff, keeping the operation lean and mean. Ultimately, our organizational achievements are the results of our dedicated, hard-working and very talented staff; our engaging and responsible retailers; committed vendor partners and most importantly, our very loyal players.

Background

As you know, the DC Lottery is positioned between two very commanding, considerably larger, and intensely aggressive state lotteries (Maryland and Virginia). We are one of very few city-run lotteries in the world—and the only one in the United States. We consider ourselves a ‘small but mighty’ lottery that seizes the day regarding unique opportunities that others might view as challenges.

Examples of this philosophy include the phenomenon of the District’s swell in population during the daytime. The United States Census Department reports that residents, commuters, and tourists inflate the nearly 659,000 population figure to over 1,000,000. Those numbers present great potential in terms of introducing new audiences to the fun of DC Lottery games, and the excitement associated with DC Lottery activities.

The Official DC Lottery Store at Union Station; the Lucky Lottery Mobile, a mobile lottery sales truck that brings the excitement of the Lottery to neighborhood festivals and business corridors throughout the District; promoting daytime specials at our legion of retailer locations; and sales opportunities at large draw venues such as the Verizon Center are just some of the approaches we undertake to engender player loyalty, foster goodwill, and increase our player base.

In all of our efforts, we hold in the highest esteem our charge to best serve the District's residents by generating revenue that helps support vital city services and programs.

A Reinvigorated Lottery

It is common knowledge that Fiscal Year 2014 was a difficult year for the DC Lottery. The shortage of instant tickets had a negative impact on sales and consequently, our Fiscal Year 2014 sales and transfer numbers. We hailed, retailers cheered, and players enthusiastically welcomed the return of DC Scratchers in February 2015. We are encouraged by consumer reception to the reintroduction of this critical element of every lottery's product line. We now offer players a full complement of DC Scratchers that offer exciting prizes and are fun to play.

In addition to bringing back instant scratch tickets, the DC Lottery also welcomed two new national games in Fiscal Year 2015: Monopoly Millionaires' Club and Lucky for Life. While the former was cancelled due to lackluster sales performance, Lucky for Life continues to gain momentum in the marketplace with its top prize of \$1,000 a day for life or the second prize of

\$25,000 a year for life. The District congratulated its first Second Prize winner—a DC resident and DCPS employee—in May 2015.

In January 2016, the Powerball jackpot reached a world record setting \$1.6 billion. Jackpot fever ran rampant in every quadrant of the District, just as in the whole of the country. DC Lottery Powerball sales reached a record high of \$300,000 an hour. With a jackpot that high, new players were coming in to experience the game in droves. Our transfer to the District in January was a whopping \$7 million dollars—\$3.1 million more than the month prior. Even though jackpot fever has subsided, we were grateful to play a part in lottery history.

The Official DC Lottery Store at Union Station Lottery was the busiest store during the record setting jackpot frenzy. It ranked number one for total sales during that jackpot run. This store continues to be a showcase for the DC Lottery and a ‘winning destination’ for visitors from all over the country. This one-of-a kind model operates as the agency’s flagship location, is home to many promotions and special events, and is uniquely situated for growing sales and favorable publicity. With its iconic location, this store became a favorite backdrop for local and international news outlets during the media frenzy over the world’s largest jackpot, generating earned media that was greatly appreciated. Sales at the Union Station store have continued to outperform projections. Fiscal Year 2015 sales totaled \$2.6 million, a more than 15% increase from last year’s tally. Overall, this store is our 5th highest performing Lottery retailer.

Charitable Licensing

The DC Lottery has spent time working with both charitable foundations and suppliers to improve and enhance our Charitable Games licensing policies, procedures and regulations. New this year, the DC Lottery's 50/50 raffle licensees, Monumental Sports & Entertainment Foundation and the Washington Nationals Foundation, have been authorized to conduct up to one-hundred and twenty 50/50 raffle events per year at their respective sporting venues. Furthermore, the Lottery continues to investigate the possible expansion of Monte Carlo Night activities to broaden the fundraising efforts of the District's nonprofit sector.

Threats/Opportunities

Even with all our achievements, there is a big threat looming on the horizon. The mammoth MGM casino and hotel at the National Harbor is scheduled to open in November 2016. Although it will be very hard to compete with all the new gaming and entertainment amenities offered there, we are monitoring that opening very closely and will continue to do what we can to develop new opportunities for our players here in the District.

One such opportunity we are exploring is a partnership with WMATA, whereby the DC Lottery could sell at Metro stations (outside of the Federal Enclave)—again seizing the day and the availability of captive audiences open to the excitement of playing DC Lottery games. Delehanty Consulting, LLC has been contracted to conduct a full feasibility assessment of this proposed program. A final report is due to the CFO by the end of May.

Acknowledgements

I would be remiss if I did not thank each of the 472 DC Lottery retailers. It is because of our dynamic partnerships with these small business owners and corporations alike located here in the District that this Lottery has been successful. They continue to serve as great ambassadors 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 and continued preference to play the DC Lottery. They, along with the hardworking staff of the DC Lottery, make this agency successful. In addition, Chairman Evans, I want to thank you for your continued support of the Lottery. I am grateful for the opportunity to testify before you today on the DC Lottery's performance for Fiscal Years 2015 and 2016. This concludes my testimony, and I am happy to answer any questions the Committee may have at this time.