



# MEMORANDUM

**To:** California State Lottery Commission      **Date:** November 1, 2006

**From:** Joan M. Borucki  
Acting Director

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Business Planning

**Subject:** Item 10(c) – Approval of Amendment to Regulations for Hot Spot® Game

## **ISSUE**

Should the California State Lottery Commission (Commission) adopt amendments to Hot Spot regulations to modify the Hot Spot game prize structure and to give the Director the authority to increase the frequency of draws?

## **RECOMMENDATION**

Staff recommends that the Commission adopt amendments to Hot Spot regulations. The amendments will become effective on November 27, 2006.

## **BACKGROUND**

The California State Lottery's (Lottery) own experience, as well as the experience of other state lotteries, shows that players like to know how much they can win before they play a game. Unfortunately, today's Hot Spot players have no idea how much they are playing for or how much they can win.

Hot Spot payouts now vary from one draw to the next. For example, in the last several months, winners who matched 6 of 8 spots have been paid as little as \$16 to as much as \$3,200 and winners who matched 4 of 4 spots have been paid as little as \$4 to as much as \$652. This causes player confusion and frustration.

Other state lotteries that offer games similar to Hot Spot have increased sales by increasing the number of draws conducted each day.

## **DISCUSSION**

### **Modification of Prize Structure**

Adoption of the recommended amendments will authorize the Lottery to: (1) make a \$300,000 irrevocable contribution and allocate 51 percent of ongoing Hot Spot sales to the Hot Spot prize fund, (2) pay Hot Spot winners (for all spots except the 8 Spot match 8 of 8 winners) “typical prize amounts” and (3) establish a “typical prize allocation” for 8 Spot match 8 of 8 winners in the amount of \$10,000.

Given that a 51 percent allocation of sales to the prize fund is higher than the core prize structure allocations (which are expected to average about 50 percent of sales), it is likely that prize fund balances will gradually rise above the amount required to pay typical prize amounts and the typical prize allocations for 8 Spot match 8 of 8 winners. The recommended amendments therefore also authorize the Director to return any excess prize funds above \$900,000 to Hot Spot players by augmenting typical prize amounts or by using special promotions to increase the number of prizes that Hot Spot players can win.

In the unlikely event the prize fund does not have enough money to pay all typical prize amounts or fund the 8 Spot match 8 of 8 prize allocation, prize payouts will automatically be reduced under a specified formula so that all winners receive a prize.

The recommended modifications to the Hot Spot prize structure will allow typical prize amounts and the 8 Spot match 8 of 8 typical prize allocation to be stable for the vast majority of all Hot Spot draws. Players will therefore almost always know how much they can win before they play the game. The end result should be an overall increase in Hot Spot sales and Lottery contributions to public education.

### **Four Minute Draw Cycle**

Adoption of the recommended amendments will authorize the Director to change the frequency of Hot Spot draws. Staff recommends that, beginning in February 2007, the Lottery conduct Hot Spot draws every four minutes instead of every five minutes. Currently there are 240 Hot Spot draws per day. This change would result in 60 more draws each day. On average, there are about 200 winners in each Hot Spot draw. By adding 60 more draws, the Lottery will produce about 12,000 more winners every day. Based on the experience of other states, this should result in a five percent increase in sales.