

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

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**Acting Director** 

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**Business Planning** 

**Subject:** Item 10(d) – Approval of Regulations for Raffle Games

## **ISSUE**

Should the California State Lottery Commission (Commission) adopt regulations to implement California State Lottery (Lottery) Raffle Games?

#### **RECOMMENDATION**

Staff recommends that the Commission adopt the regulations. The regulations will be effective with the first sales of a game called: "Million Dollar Raffle."

#### **BACKGROUND**

Raffle games are just now becoming popular in the lottery industry. Three state lotteries; Indiana, New York, and Pennsylvania, have already run raffle games with great success and an additional 15 state lotteries have raffle games planned or under consideration. This will be the first time that the Lottery has tried this type of game.

# **DISCUSSION**

The Million Dollar Raffle game has been designed to attract people who normally don't play the Lottery and to fill a void by offering a \$1 million cash prize with the best odds of winning such a prize ever offered by the Lottery. The new game will also test the

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willingness of current and new players to accept higher price point draw games. Staff anticipates that the game will generate \$22 million in sales<sup>1</sup>.

#### Summary of Game Features

The Million Dollar Raffle game will offer players the opportunity to buy one or more of five million available raffle numbers. These numbers will be issued in sequence by the on-line gaming system beginning with the number 0000001 and ending with number 5000000. Game sales will begin on February 5, 2007 and end on St. Patrick's Day, March 17, 2007 unless all numbers are sold prior to this date.

Raffle numbers will sell for \$5 each for up to three numbers on a single ticket. Players spending \$20 or more on a ticket will receive a purchase incentive and only pay \$4 for each number. Players will be able to purchase up to 25 numbers on a single ticket (for \$100).

To encourage players to buy early there will be four preliminary drawings and one final grand prize drawing. Raffle numbers are eligible for all five drawings. Accordingly, the earlier players buy their numbers, the more drawings they will be eligible for and the better chance they will have of winning a prize.

Preliminary drawings will be held on February 17, February 24, March 3, and March 10, 2007. Ten winning raffle numbers will be randomly drawn from the pool of eligible numbers issued for each of the four preliminary drawings. Preliminary drawing winners will receive a \$10,000 cash prize for a total of \$400,000 in prizes. Players who win in a preliminary draw will still be eligible to win in subsequent preliminary draws and in the grand prize drawing.

The grand prize drawing will be on St. Patrick's Day (March 17, 2007). At least five, and up to ten, winning raffle numbers will be selected in the grand prize drawing. Grand prize drawing winners will receive a \$1 million cash prize. The total number of grand prizes (above the guaranteed five) will depend on sales.

#### Best Odds Ever to Win a Big Prize

The Million Dollar Raffle game will offer the best odds ever of winning a \$1 million prize of any game ever offered by the Lottery. A single raffle number will have an approximate 1 in 500,000 chance of winning a jackpot prize.

<sup>&</sup>lt;sup>1</sup> Assumes that all five million raffle numbers sell out and that 60 percent of the numbers will be purchased at the discounted price point of \$4 per number while the remaining 40 percent of the numbers will be purchased for \$5 per number.

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## Bringing in New Players

Based on research done in Pennsylvania, the raffle game format appeals to individuals who do not normally buy lottery tickets. This is very important because this means that a large percentage of raffle game sales should be net incremental sales, instead of sales acquired at the direct expense of other lottery games.

### Filling a Prize Level Void

The Million Dollar Raffle's \$1 million jackpot prize fills a current prize level void in existing draw games. No other draw game offers a \$1 million cash prize. The closest current game is Fantasy 5 which only occasionally has a top prize in the range of \$200,000 (and has never paid more than around \$700,000). On the other edge of the payout range is SuperLOTTO Plus® which starts off with a \$7 million annuitized prize that has a cash value of approximately \$3.5 million. The Million Dollar Raffle game fills this void and also responds directly to one of the most frequent player complaints; i.e., the Lottery should pay out ten \$1 million dollar prizes to ten winners rather than one prize of \$10 million to one winner.

## A New On-Going Product Line

If the raffle concept proves to be popular with Lottery players, the same basic raffle model can be rolled out multiple times each year.

### Low Risk/High Reward

In terms of financial risks and potential benefits, it is highly unlikely that the Million Dollar Raffle game will fail to produce net profits for education, as game sales of just one half of the available raffle numbers are needed to break even. If the game sells out, it will raise almost \$7.5 million for public education.