



M E M O R A N D U M

Date: April 14, 2011

To: California State Lottery Commission

From: Linh Nguyen,
Acting Director

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Subject: Item 9(c) Amendment to Hot Spot[®] Game Regulations

ISSUE

Should the California State Lottery Commission (Commission) approve amendments to Hot Spot game regulations?

RECOMMENDATION

Staff recommends that the Commission approve amendments to Hot Spot game regulations. These amendments will become effective August 1, 2011.

BACKGROUND

The California State Lottery (Lottery) has completed an in-depth analysis of Hot Spot and developed a recommendation for a course of action that will make the game more attractive to our core players and enable the Lottery to expand its social trade-style retailer network. This should result in an increase in Hot Spot sales and additional revenue to public education.

DISCUSSION

The revised Hot Spot game will offer more spots (1 through 10 spots inclusive), Bulls-eye on each of the ten spots, and more meaningful \$50-\$75 prizes. With these additions to the game, we can satisfy the desires of our core playership without significantly reducing the game's profitability. Currently the wagered prize fund (the accounting designation for

the Hot Spot prize money) is 56 percent of Hot Spot sales. Staff recommends keeping the Wagered Prize Fund at 56 percent and increasing the typical prize payout percentage from 49.5 to just under 50.6 percent. The typical prize payout percentage is the expected payout percentage of all prizes combined, during non-promotional periods.

This will also allow the Lottery to strategically increase prize payouts over time as the retailer network expands. Launching with this configuration still delivers a better product to players and allows us flexibility to offer significantly increased prizes during promotional periods.

Implementing the recommended changes to Hot Spot could result in a conservative 10-20 percent increase in sales from FY 10-11, estimated at \$127 million, to \$140-\$152 million in total annual sales for FY 11-12. Similarly, current fiscal year profits to education are expected to be \$46 million. By keeping the Hot Spot payout the same at 56 percent yet expanding the number of spots, offering top prizes of \$100,000 and more and expanding the availability of Bulls-Eye to each spot, expected FY 11-12 sales of \$146 million would generate \$53 million to education – a \$7 million increase.

Re-launching Hot Spot with 10 full spots, keeping the wagered prize fund at 56 percent, offering a 51 percent standard prize structure and exploring promotional features at relaunch and throughout the first few months to see the response from players allows the Lottery to carefully monitor increased sales versus educational contribution increases. Promotions at 56 percent, 59 percent, even 62 percent will show drastically increased prizes and result in the kinds of returns we have seen in recent promotions without committing ourselves to an ongoing 59 percent payout.