




M E M O R A N D U M

Date: June 29, 2023

To: California State Lottery Commission

From: Alva V. Johnson 
Director

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Subject: 9(f) – Hot Spot® Prize Payout and Regulation Changes

ISSUE

Hot Spot is a monitor game that offers players the option to purchase a Hot Spot base game and an optional Bulls-eye add-on feature for an additional wager. To improve sales of the game and manage game expense, California State Lottery (Lottery) is proposing changes to the Hot Spot prize payout structure. California State Lottery Commission (Commission) approval is required to modify the existing prize structure to optimize the game's sales performance and manage game expenses. The proposed game prize structure would increase the game's overall prize expense from 63% to 64%, reflecting a slight decrease in the Hot Spot prize payout and a more significant increase in the Bulls-eye prize payout. The new prize structure will launch in November 2023.

BACKGROUND

Growing sales of Hot Spot remains a key area of focus for the Lottery within its strategic plan and represents an opportunity to provide more supplementary dollars to education. The game has not had a major change since 2012, when the payout was increased to reflect industry best practices and attract more casual players to the game.

DISCUSSION

The game's last change helped begin a pattern of sales growth for Hot Spot; however, it also altered the emphasis on the Bulls-Eye add-on feature, making its prize payout lower than the base game. Over the years, player behavior has shifted to reflect this payout change, as players do not see the benefit of adding an additional wager to play the Bulls-eye feature and shifted their play to other areas of the game. In 2017-18, the base game sales were 61% of sales, but currently that total has shifted up to 74%.

This shift in player behavior also impacted overall prize payouts due to the variance of prize payouts across the game's structure. California is unusual in its prize payout disparity in this style of game, compared to other jurisdictions with games that offer a similar quick play style. This variance creates risks in the game's funding model and has required supplementation to support the game expense, particularly as sales continue to grow in the game.

To address these challenges, a modification to the prize structure is proposed that will:

- Decrease the Hot Spot base game payout from 64.4% to 63% with slight reductions in specific "spot" prize divisions
- Increase Bulls-eye payouts from 59% to 65%
- Offer parity payouts among the prize divisions within each game feature

These modifications are designed to offer players bigger prizes when they add the Bulls-eye feature and create more parity within the prize structure. If the Commission does not adopt these amended game regulations, the Lottery could lose the opportunity to increase Hot Spot sales. Hot Spot play will also continue to shift to higher payout prize divisions, resulting in increased liability for the game expense.

The proposed amended Hot Spot Regulations address the updated prize structure and game expense that will be offered in California. The amended Regulation sections are 3.5.4.B (1), 3.5.4.B (4) (a), and 3.5.6.C (2) (a).

RECOMMENDATION

Lottery staff recommends that the Commission adopt the attached regulations which would become effective in November 2023.

Attachment