




M E M O R A N D U M

Date: February 2, 2023

To: California State Lottery Commission

From: Alva V. Johnson, Director 

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Subject: Item 8(e) – Microsoft Enterprise Licensing Agreement

ISSUE

The California State Lottery (Lottery) entered into a three-year contract for the Microsoft Enterprise Licensing Agreement (MELA) subscription with SoftwareONE, Inc. (SoftwareONE) on March 1, 2020. The Lottery is seeking the California State Lottery Commission's (Commission) approval to add additional funds of \$350,000 to the current contract to cover continuing Azure Cloud services for the remainder of the contract.

BACKGROUND

The MELA program is an agreement that allows the Lottery to manage and forecast software technology costs in advance. The agreement supports Microsoft's stack of enterprise products and platforms utilized at the Lottery. Since its inception, the Lottery has predominately used Microsoft products and platforms to facilitate the business of the Lottery and maintain operational needs/requirements in support of the Lottery's mission. These products and platforms include Data Center server operating systems, software development tools, system support tools, and cloud services. For over twenty years, the Lottery has taken advantage of substantial savings by procuring enterprise software renewal licenses through a single master agreement with Microsoft such as the MELA and has negotiated renewal agreements approximately every three years over that period.

DISCUSSION

At the January 2020 Commission meeting, the Lottery sought and received approval from the Commission to enter into a three-year MELA for three main Microsoft services. The

first piece was Enterprise Office 365 subscription licenses (e.g., productivity software such as Word, Excel, PowerPoint, etc.). The second piece was licensing for servers, networks, and development tools. The third piece was for Microsoft Azure Cloud services. This resulted in the issuance of Purchase Order (PO) 20129 in the amount of \$4,800,000.

The Information Technology Services Division (ITSD) originally estimated Azure Cloud services usage at the rate of \$55,555 per month for 36 months for an approximate three-year total of \$2,000,000. However, ITSD's average usage over the contract term for Azure Cloud services has steadily increased over the last 29 months. This is attributed to the increase in infrastructure to support our Public Website's new features, Disaster Recovery, increased load during multiple high jackpots, and the rapid adoption of Azure Cloud services for the Lottery's virtual data center. As a result, the Azure Cloud services will exceed the original allocation of \$2,000,000 for the three-year contract.

Aside from the \$2,000,000 allocation and 10% contingency allocated in the contract, there are no other available funds for payment of the remaining usage charges for Azure Cloud services.¹ ITSD projects that it will need an additional \$350,000 to cover the remaining Azure Cloud services usage charges through February 2023.

The original procurement utilized the leverage procurement agreement Software Cooperative Agreement (SCA-19-70-0169Y) with SoftwareONE, which allowed for amendments for true-ups and additional products.

This contract expires on February 28, 2023. A new procurement for services after February 28, 2023, is currently in process. As part of the new procurement ITSD has accounted for the Azure Cloud services usage at a higher rate to account for increases over the life of the contract.

RECOMMENDATION

The Lottery recommends that the California State Lottery Commission approve the amendment of the Microsoft Enterprise Licensing Agreement current three-year contract with SoftwareONE, Inc. to add funds of \$350,000 for Azure Cloud services, for a total contract amount of \$5,150,000. All other provisions will remain in effect.

¹ The contract shows existing funds for Microsoft Office 365 licenses in years two and three (totaling \$1,220,209); however, those funds cannot be reallocated for other purposes, because 1) the Commission approved the Lottery's request to cancel that portion of the MELA at the January 2021 Commission meeting, and 2) the Lottery did not request or receive Commission approval to repurpose those funds within the contract. The reason for cancelling these services was that the Lottery performed a cost/benefit analysis and determined that it could realize cost savings by leveraging the California Department of Technology's Enterprise Licensing Agreement for its Microsoft Office 365 licenses.