




M E M O R A N D U M

Date: December 8, 2022

To: California State Lottery Commission

From: Alva V. Johnson, Director 

Prepared By: Jennifer Chan, Deputy Director
Information Technology Services Division

Subject: Item 8(c) - Microsoft Enterprise Licensing Agreement Renewal

ISSUE

The California State Lottery (Lottery) seeks the California State Lottery Commission's (Commission) approval to enter into a new three-year agreement to renew the Microsoft Enterprise Licensing Agreement (MELA) subscription. The total agreement renewal amount for the MELA is \$6,898,274 with a three-year term date beginning March 01, 2023, and ending February 28, 2026.

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.

In previous MELA agreements, Microsoft Office 365 licensing products for the department were also included as part of the overall agreement. At the January 2020 Commission, the Lottery sought and received approval from the Commission to enter into a 3-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.

However, in late 2020, the California Department of Technology (CDT) announced that it had been in negotiations with Microsoft and that it would be entering into a 5-year Microsoft Office 365 Statewide Enterprise Licensing Agreement (ELA) which would end in March 2026. The statewide CDT ELA allows for state agencies and departments to leverage multi-tiered discounts for Enterprise Office 365 licensing through the CDT ELA. The Lottery performed a cost/benefit analysis and determined that it could realize cost savings by leveraging the CDT ELA for its Microsoft Office 365 licenses.

As a result, at the January 2021 Commission Meeting, the Lottery sought and received approval from the Commission to cancel the second and third year of the Microsoft Office 365 portion of the Lottery's existing MELA contract and to leverage the CDT ELA instead for those licenses. The Commission approved this request, and the Microsoft Office 365 licenses were removed from the Lottery's MELA, leaving the remaining two components of server enrollment and Azure Cloud Services on the Lottery's MELA. This request is to renew the MELA for those same two components.

Server Enrollment – The Server Enrollment subscription includes server tools providing critical infrastructure functions such as software virtualization, application development, network management, and database administration to ensure the Lottery's core technology is fully operational and available at all times. Also included are a set of development tools called Azure Dev Ops, which is a web application framework used by the Lottery in the development of various cloud applications.

Azure Cloud Services – The Lottery utilizes Microsoft's Azure Cloud Services (Azure) platform which provides a wide variety of cloud services from a vast network of highly available datacenters. As of January 2015, the Lottery's Public Website has been hosted in the Azure cloud environment and supports the ongoing enhancement of the features and capabilities of our player experience. In 2019, a new Virtual Data Center (VDC) was architected, configured, and implemented for the purpose of housing future Lottery applications and workloads. This VDC

supports modernization of applications and infrastructure by freeing up on-premises resources and moving them to the cloud, thereby increasing operational efficiency, scalability, and stability. Two Business Plan Proposals (BPPs) were approved for Fiscal Year (FY) 2022/23 that will continue to expand and build upon the services in the Lottery’s VDC. These BPP’s focus on moving the Lottery’s current physical backup infrastructure to the Cloud and modernizing the Lottery’s Data Warehouses and the services provided to be served from the Cloud consistent with the Lottery’s plan to continue modernization efforts and increase operational efficiency, scalability, and stability.

The MELA provides the Lottery with flexibility to respond to changing business priorities by streamlining software and license management under one agreement and allowing instant adjustments to Server Enrollment software licensing at any time during the agreement. This optimizes the budget for the Lottery’s Microsoft Server Enrollment software licensing by always aligning to current Lottery business needs. A simple annual “true-up” for any net new licenses added covers any increases. The Lottery has determined that a 15% bucket will be sufficient to cover any true-up costs over the three-year term of the agreement for Server Enrollment related software licensing costs. The 15% true-up cost bucket was determined using trend analysis of the last two Microsoft EA agreements spanning the past six years and taking into consideration future growth and modernization efforts the Lottery is undertaking.

Azure Cloud Services under this MELA are billed on a “pay as you go” model. Based on an analysis of current Azure subscription data of services utilized, average consumption rates, and forecasting the current and future Azure Cloud related efforts, the Lottery has concluded based on best available information and current/future planning, to provision \$6M dollars for total Lottery Microsoft Cloud Services over the three-year term of the MELA.

The detailed costs to procure Server Enrollment and the Azure Cloud Services, as well true-up contingency funds for the three years of the MELA are outlined below:

Product Category	Total Cost
Server Enrollment	\$781,107.66
Azure Cloud Services (estimated)	\$6,000,000.00
Server Enrollment 15% True-Up Contingency (estimated)	\$117,166.15
TOTAL COST	\$ 6,898,273.81

The Lottery's formal competitive procedures will not apply to this procurement, pursuant to the exception set forth in Lottery Regulations Section 8.1.2.C as follows:

"The goods or services will be acquired by using a standard United States General Services Administration Agreement or a State of California, Department of General Services Master Services Agreement, Multiple Award Schedule, Master Rental Agreement, or other such agreement which establishes a list of pre-qualified bidders who have agreed to contract terms and prices."

The Lottery utilized a leveraged procurement agreement, requesting bids from multiple resellers that participate in the Software Cooperative Agreement (SCA) administered by the State of California, Department of General Services (Agreement Number: SCA-19-70-0008F). The lowest bid was submitted by Insight Public Sector Inc.

RECOMMENDATION

The Lottery recommends that the California State Lottery Commission approve the renewal of the Microsoft Enterprise Licensing Agreement. The total agreement renewal amount for the MELA is \$6,898,274 with a three-year term date beginning March 01, 2023, and ending February 28, 2026.