



## M E M O R A N D U M

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**Date:** January 16, 2020

**To:** California State Lottery Commission

**From:** Alva V. Johnson, Director 

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Sales & Marketing Division

**Subject:** Item 8(c) – United Parcel Service (UPS) Contract Amendment

### **ISSUE**

The California State Lottery's (Lottery) current contract (Contract) with UPS for Scratchers® ticket delivery and returns became effective February 20, 2012 and is currently effective through February 19, 2019. The Lottery has the option to amend the contract by mutual written consent which requires additional funds to continue shipping services for Scratchers tickets.

### **BACKGROUND**

The Lottery is currently operating under a five-year agreement with UPS for shipping services associated with the Scratchers product. The original Contract term was from February 20, 2012 through February 19, 2017 with the option of two, one-year extensions and Emergency Extended Service for a period not to exceed 12 months from Contract expiration. The original maximum Contract expenditure amount was \$20 million. The California State Lottery Commission (Commission) approved a first Contract amendment to add \$3.26 million in additional funds in April 2013, bringing the maximum authorized Contract expenditure amount to \$23.26 million. In June 2016, the Commission approved a second Contract amendment to exercise the first option to extend the term of the agreement for one year through February 19, 2018 and increased the maximum authorized Contract expenditure amount by \$10.8 million to \$34.06 million. In November 2017, the Commission approved a third Contract amendment to exercise the second option to extend the term of the agreement for one year through February 19, 2019 and increased the maximum authorized Contract expenditure amount by \$8.4 million to \$42.46 million. In November 2018, the Commission approved a fourth Contract amendment to exercise the Emergency Extended Service provision to extend the term of

the agreement for one year through February 19, 2020 and increased the maximum authorized Contract expenditure amount by \$7.2 million to \$49.66 million.

## **DISCUSSION**

The Lottery released a Request for Proposal (RFP) on September 9, 2019 for Scratchers ticket delivery and returns. The Lottery subsequently cancelled the RFP. The Lottery will need time to evaluate the best value and options available to either revise the scope of services and release a new RFP or request approval for a non-competitive bid. This process will exceed the remaining time left in the current Contract's term due to the time and effort associated with issuing a new RFP or non-competitive bid, awarding a contract, and if necessary, on-boarding a new vendor. Lottery staff proposes to exercise the option to mutually amend the current Contract provision. This extension will allow the Lottery to continue services without interruption to Scratchers product delivery, while completing the solicitation, evaluation of bids, and award of a new contract. This additional year will extend the current Contract through February 19, 2021.

Scratchers sales orders have continuously increased more than anticipated and are again expected to do so in fiscal year 2020-21. Such growth has resulted in increased shipping costs in addition to the Contract's built in yearly per-parcel price increase throughout the Contract term. Pricing will remain the same through February 23, 2020, and new pricing in the attached Price Sheet will begin with the start of the next billing cycle, February 24, 2020, and will be fixed through the end of the extended Contract term. To estimate costs for the additional 12 months under this Contract, the Lottery applied the most recent growth trend. Specifically, costs in the most recent 12-month period of the Contract increased 10% over costs in the previous 12-month period. This yielded estimated costs of \$8.9 million for the 12-month extension, to which Lottery staff added approximately 5%, to account for the per-parcel increase. Subtracting the estimated \$1.1 million amount remaining under the authorized Contract expenditure amount results in total additional requested Contract expenditure authority of \$8.3 million.

UPS has provided satisfactory Scratchers ticket delivery and return services throughout the Contract term. Continuing the use of UPS is consistent with efficient operation and Lottery goals.

## **RECOMMENDATION**

Lottery staff recommends that the Commission approve the amendment of the UPS contract for Scratchers delivery and return services to exercise the mutually agreed Contract extension and add \$8.3 million in additional expenditure authority. This Contract

amendment will increase the maximum authorized Contract expenditure amount to \$57.96 million and extend the term through February 19, 2021.