



M E M O R A N D U M

Date: January 28, 2020

To: California State Lottery Commission

From: Alva V. Johnson *AV*
Director

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Sales & Marketing Division

Subject: Item 8e – Scratchers Ticket Delivery and Return Services Contract

ISSUE

The California State Lottery's (Lottery) contract for Scratchers® ticket delivery and returns is expiring on February 19, 2021. A new contract for Scratchers ticket delivery and returns services is needed.

BACKGROUND

Scratchers sales represent approximately 75% of Lottery revenue. The Lottery ships Scratchers products from two distribution centers to over 23,000 retailers throughout the state, including ongoing maintenance orders as well as monthly auto-ship orders. The Lottery is currently operating under a contract (Contract) with UPS for shipping services associated with the Scratchers product with a total maximum contract expenditure authority of \$57.96 million. The original Contract term was from February 20, 2012 through February 19, 2017 and the Lottery exercised two, one-year extensions.

In November 2018, the California State Lottery Commission (Commission) approved an Emergency Extended Service provision to extend the term of the agreement for one year through February 19, 2020. In anticipation of entering into a new contract, the Lottery released a Request for Proposal (RFP) in September 2019 for Scratchers ticket delivery and returns. The Lottery subsequently cancelled the RFP.

To continue these mission critical services, the Commission approved a fifth Contract amendment to exercise the provision to mutually extend the term of the agreement for one year through February 19, 2021.

DISCUSSION

In anticipation of issuing a new RFP, the Sales Support & Distribution Team in conjunction with Business Planning researched industry standards for shipping Scratchers tickets via a North American Association of State Provincial Lotteries (NASPL) survey. Eighteen lotteries responded to the survey. Thirteen lotteries use UPS exclusively, three use UPS and a secondary vendor, one uses Fedex, and one uses a company called Speedee. The survey asked if any of the lotteries allowed sub-contracting to deliver tickets. Sixteen lotteries responded to that question. Twelve lotteries did not allow sub-contracting. Four lotteries (Maryland, Illinois, Washington, and Iowa) did allow sub-contracting. Washington stated sub-contracting was allowed with prior approval. Three of the four lotteries allowing sub-contracting, had UPS as their primary contract.

In July 2020, Procurement Support Services (PSS) subsequently recommended that an Invitation for Bid (IFB) be released instead of an RFP. The Lottery released an IFB on October 9, 2020. On November 20, 2020, the Lottery canceled the IFB because no responsive bids were received.

On December 14, 2020, a second IFB outlining Lottery's requirements was released. On January 13, 2021, the IFB Evaluation Team met to review the three bids submitted to the Lottery. Upon initial review, two bids were accepted and the third was disqualified due to it being a conditional bid. The Evaluation Team reviewed each qualified bidder's references and performed a cost analysis to ensure the Lottery would receive the best value. Based on the cost analysis and references, Unity Courier Inc. (Unity) was determined to be the successful bidder.

During the cost analysis, all bids were compared against the completed number of maintenance orders and auto-ship orders during calendar year 2019. Calendar year 2019 was selected because it was the last full year of shipping which was not adversely affected by shipping challenges brought about by the COVID-19 pandemic. Thus, the 2019 calendar year was more indicative of future shipping needs for the Lottery.

Based on the Lottery's typical average retailer growth rate and parcel shipping growth history, the Evaluation Team determined that Unity will provide the best cost value to the Lottery. Unity's fixed rate price schedule provided the lowest amount of shipping price increases over the life of the contract, the lowest starting price per parcel shipped, the lowest ending price per parcel shipped, and free return services.

On January 15, 2021, Unity was notified of the Lottery's intent to award the Scratchers Delivery and Return Services Contract to them pending the successful completion of the General Contractor Disclosures and Lottery Commission approval.

RECOMMENDATION

Lottery staff recommends that the Commission approve the award of the Scratchers Delivery and Return Services Contract to Unity Courier Inc. for a term of five years and a maximum authorized contract expenditure authority of \$48 million, with the option to extend the contract an additional year.