



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

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Date: May 26, 2022

To: California State Lottery Commission

From: Alva V. Johnson   
Director

Prepared By: Sharon Allen, Deputy Director  
Sales & Marketing Division

Subject: 8(a) – Scientific Games International, Inc. Instant Ticket Printing  
Contract Extension and Increase in Expenditure Authority

### **ISSUE**

The California State Lottery (Lottery) contracts with Scientific Games International (SGI) as the primary vendor for instant tickets (Scratchers®) production. A contract extension and additional funds are requested to extend the contract to November 30, 2023.

### **BACKGROUND**

The Lottery currently contracts with SGI as one of its three Scratchers printing vendors. The original contract term was December 1, 2013 through November 30, 2019 with an initial expenditure authority of \$100 million and included authority for the parties to amend the contract upon mutual written consent. In 2019, the California State Lottery Commission (Commission) exercised the first option to extend the contract by a term of three years to November 30, 2022, and added \$76 million to the authorized contract expenditure, bringing the maximum authorized contract expenditure to \$176 million. Following the first option, the agreement includes the option to extend for three additional one-year terms.

### **DISCUSSION**

As the primary vendor, SGI is responsible for printing the majority of Scratchers for the Lottery, as well as additional responsibilities such as providing on-site staff and extended marketing support. In addition, SGI plays an integral part in the Lottery's overall success with Scratchers sales and in turn, its contribution to education. It is a valuable and strategic business partner, providing a unique and innovative product, and up-to-date trends and expertise, as well as nimbly supporting the Lottery's rapidly

changing needs during the challenging COVID-19 pandemic. Additionally, it provides analysis and industrywide insights into the Lottery's business. SGI has proven to be a key vendor that has helped the Lottery increase Scratchers sales from approximately \$3 billion in 2013, to over \$6.4 billion in 2021.

There are only three instant ticket printing vendors within the industry that can meet the Lottery's needs, volume and security requirements, and the Lottery has contracts with each of them. Each of these vendors provides the comprehensive, highly specialized services required for printing Scratchers, serving lottery clients across the globe. Issuing a Request for Proposal (RFP) would not result in locating any new vendors capable of producing tickets meeting these industry specifications, and the Lottery seeks to exercise the one-year contract extension option to help ensure uninterrupted product sales, and save valuable staff time and the expense associated with releasing an RFP.

SGI games include some of the Lottery's top sellers, like *Monopoly* and *Loteria*, and will continue to provide consistent products in the portfolio to reflect customer demand. As the Lottery continues its record-breaking Scratchers sales in Fiscal Year 2021-22, due in part to the increased popularity of SGI games, resulting printing costs have been higher than expected to keep pace with player demand. During the pandemic, the Lottery focused on ensuring distribution of its highest-selling games, which prioritized reorders and orders of certain SGI games. As SGI faced capacity issues due to national demand and pandemic-impacted supply chain disruptions faced by many industries, SGI continued to work with the Lottery to supply games.

As of April 2022, the SGI contract has approximately \$14 million of funding available for the remainder of the current contract term. To allow the Lottery to have sufficient funding until the current and proposed terms end in November 2023, Lottery staff recommends increasing the contract expenditure authority by \$48 million to ensure the Lottery can continue to fulfill its mission of providing supplemental funding to California schools.

With the approval of the additional funds for the one-year extension period, the new contract expiration date would be November 30, 2023, and the maximum authorized contract expenditure amount will be \$224 million.

## **RECOMMENDATION**

Lottery staff recommends that the Commission approve an increase in expenditure authority and an extension of SGI's instant ticket printing contract for one year to November 30, 2023. The proposed extension will add \$48 million to the contract, for a maximum authorized contract expenditure amount of \$224 million.