




M E M O R A N D U M

Date: November 18, 2021

To: California State Lottery Commission

From: Alva V. Johnson 
Director

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Subject: Item 8(d) – Ratification of Lottery Master Agreement with Enterprise Fleet Management Program to Acquire Leased Vehicles.

ISSUE

The California State Lottery (Lottery) requests ratification of the Master Lease Agreement with Enterprise FM Trust to lease fleet vehicles to sustain critical Lottery operations. The Lottery executed this Agreement utilizing the competitive bidding exception authorized in Lottery Regulations Section 8.1.2.A and the Director authorized the execution, subject to ratification by the California State Lottery Commission (Commission), as permitted under Lottery Regulations Section 8.6.6.A.

BACKGROUND

The Lottery typically acquires new and replacement vehicles utilizing the California Department of General Services (DGS) Leveraged Procurement Agreement. The Lottery competes with other State of California and California local government agencies for the same pool of vehicles allocated by manufacturers for government entities. In the best of years, the Lottery can acquire all required vehicles and take delivery in six to nine months. As a result of the COVID-19 pandemic, the industry has encountered disruptions to manufacturing resulting from supply chain and transportation impacts. This resulted in the Lottery being unable to fully source vehicles ordered as part of its FY 2020-21 procurement.

In June 2021, the Commission approved the Lottery's FY 2021-22 budget, in which the Lottery allocated \$3,844,785 to acquire 88 vehicles. Also, in June 2021, the Lottery's Operations Division representatives began discussions with Enterprise Fleet Management Program (EFMP) on their vehicle lease program and how the program could potentially benefit the Lottery in comparison to its current ownership program.

As discussions continued through the following months, the Lottery determined it would not be able to source vehicles to meet the current fiscal year's operational needs using state-issued contracts. Sourcing conversations with EFMP and vehicle dealerships highlighted the need for the Lottery to find an industry partner that could work with the manufacturers directly to obtain vehicles on the Lottery's behalf. This partner needed to have more buying power than is available through DGS. After researching available options, comparing program costs, benefits, and limitations, it was determined that the lease program model through EFMP was the only viable option given the constraints of the industry, and would benefit Lottery operations by ensuring required vehicles are deployed Summer 2022.

DISCUSSION

The Lottery requires 88 vehicles for field operations in the Sales and Marketing Division (S&M), where drivers service retailers and promote Lottery products; and for Operations Division (Ops) Engineering and Maintenance staff, who service and maintain Lottery facilities throughout the state. The vehicle types are dependent on the type of work drivers perform and include both vans and sedans. New Lottery vans require upfitting prior to deployment to drivers and has historically been outsourced to an outfitter.

On October 19, 2021, the Lottery was informed by EFMP that model year 2022 vehicle orders must be submitted to manufacturers by November 10, 2021. If orders were not submitted by the cutoff date, the Lottery would have to wait until 2023 models were made available to order, anticipated to be fourth quarter of FY 2021-22 with delivery anticipated in third quarter FY 2022-23. To ensure the Lottery received critical fleet equipment, EFMP submitted an allocation request on the Lottery's behalf to the manufacturer to hold up to 100 vehicles for the Lottery on October 29, 2021, with the understanding that an agreement would be signed within a few days. Consequently, the Lottery executed a master lease agreement with Enterprise FM Trust (the named Lessor of the vehicles) on November 4, 2021 and requested 88 2022 model year vehicles (74 Ford Transit Connects, 4 Ford T-150 Vans, and 10 Toyota Camry's) with 60-month lease terms. Delivery of leased vehicles are anticipated in August 2022 and lease costs start upon receipt and delivery of each vehicle. The estimated lease costs are \$436,374 per year for

five (5) years, totaling \$2,181,870^{1 2}. Funding to pay ongoing lease costs will be allocated in the Lottery's FY 2022-23 budget and in subsequent FYs. There will be no vehicle lease costs for FY 2021-22.

By leasing 88 vehicles through Enterprise FM Trust, the Lottery will have access to the vehicles it needs to sustain critical Lottery operations. Benefits include:

- 88 new and/or replacement vehicles.
- New, safe, and reliable vehicles with the newest features and technology available in the market.

If the Lottery did not take advantage of the lease option and took no action, the Lottery would lack sufficient inventory of vehicles and/or would result in long-term leases of required vehicles through DGS, if vehicles are available. The cost to lease vehicles through DGS' program are generally two to three times as high as the monthly lease costs that Enterprise FM Trust offers the Lottery.

This agreement was entered into based on the exception to formal competitive bidding set forth in Lottery Regulation Section 8.1.2.A, which applies in the following circumstance:

“There is insufficient time for a formal competitive process because of an urgent and compelling need to contract for goods or services necessary for the immediate preservation of Lottery operations, the integrity and security of Lottery operations, or the protection of Lottery property. In such situations, where feasible, an informal competitive bid process should be used that adheres as closely as possible to the procedures outlined in section 8.2.1 below.”

As described above, the Lottery determined that securing these vehicles was an urgent and compelling operational need. The Lottery did not have sufficient time to conduct a formal solicitation, and informal competitive bidding was not feasible, due to time constraints and manufacturing deadlines noted above.

Lottery Regulations permit the Director to authorize an agreement that exceeds \$250,000, with subsequent ratification by the Commission, under the conditions described in Section 8.6.6.A, which states:

“Notwithstanding the foregoing requirements for Commission approval, if circumstances require work under a particular contract or contract amendment to

¹ The actual costs may vary at time of delivery because the capitalized price of the vehicles may be adjusted to reflect the final manufacturer's invoice, and the monthly lease charge will be adjusted to reflect the current interest rate.

² Vehicle upfitting costs will be agreed upon prior to delivery and the agreement amended if necessary. Specifications are being finalized based on new model year configuration.

commence prior to the next Commission meeting, the Director may authorize the execution of the contract with simultaneous notification to the Chair of the Commission. Thereafter, at the next opportunity, the Director will seek Commission ratification of the contract or amendment. In addition, the Director will place in the contract file a memorandum explaining the rationale for the expedited procedure.”

RECOMMENDATION

Lottery staff recommends that the Commission ratify the Master Lease Agreement with Enterprise FM Trust to acquire 88 vehicles for 60-month lease terms, at the estimated cost of \$2,181,870, plus tax and fees, with costs payable beginning in FY 2022-23.