



M E M O R A N D U M

Date: November 9, 2023

To: California State Lottery Commission

From: Alva V. Johnson, Director *AA*

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Subject: Item 8(f) – Epicor - Lottery Financial System Contract Renewal

ISSUE

The California State Lottery's (Lottery) current Financial System contract for software support and hosting services with Epicor Software Corporation (Epicor) expires on December 23, 2023. The Lottery seeks Commission approval to enter into a new four-year contract. The total contract amount is \$1,429,748.64, with the four-year term beginning December 24, 2023 and ending December 23, 2027.

BACKGROUND

The Lottery's financial system is critical to many of the Lottery's core functions, including accounts payable and receivable, procurement management and tracking, asset and cash management, general ledger accounting, and business reporting. The Lottery has utilized Epicor software and services to run its financial system since 1999.

In 2018 the Lottery executed Contract #50105 with Epicor to upgrade from Epicor 7.4 system to Epicor 10 (E10) system, which included five-years of cloud-based software hosting solution and support services. In 2018 the Lottery started project efforts. As part of Contract #50105 Epicor provided implementation planning, software configuration, data migration, data integration construction, report development, user testing/acceptance, go-live implementation support, post go-live support, and Project close-out activities. The upgrade to E10 was completed in 2022 and the cloud-based software hosting solution and support services are set to expire December 23, 2023.

DISCUSSION

The Lottery's Epicor software and hosting services is obtained primarily through a hosted cloud software model. The Lottery uses the E10 cloud-based accounting applications suite for Finance and Operations Management. The E10 cloud suite includes software to support the Lottery for purchasing goods and services, accounts receivable and collections management, analytics, and document management solutions for department wide procurement needs. Utilizing a cloud-based solution, with software managed and maintained by Epicor, helps ensure that the Lottery's financial system is optimized to maximize performance and efficiency. These services are hosted by Epicor in a single-tenant environment to ensure data security and integrity. E10 provides the Lottery with improved fiscal system performance, functionality, ease of use, and readiness for future technological enhancements.

Epicor software provides several benefits to the Lottery. It simplifies deployment and configuration of many aspects of financial reporting and provides a profit-based cost accounting structure that gives the Lottery more relevant information to better achieve its operational goals. This granular information allows for more sophisticated cost-benefit/profitability analyses of projects, initiatives, promotions, and products. E10 has integrated features that streamline the Lottery's budget development and maintenance. E10 offers full system integration between procurements, contracts, and accounts payable, which greatly reduces the risk of missed or late payments and incorrect expense recording. Without this critical managed cloud hosting and software licenses/support, the Lottery could not operate or fulfill its mission. If the Lottery does not procure these services, it will result in significant negative operational impacts and hinder the Lottery's ability to perform core functions.

The Lottery's long history with Epicor was the result of the business decision made by the Lottery to invest in Epicor's product over 20+ years ago. Since the completed upgrade to E10 in 2022, there was insufficient time to complete a thorough market research effort to identify and implement a potential replacement solution. The Lottery is in a position where it is necessary to continue services with Epicor to ensure there are no disruptions to ongoing critical operations. The Lottery has identified a need to implement an Enterprise Resource Planning (ERP) solution which could result in a replacement of Epicor. The Lottery is currently working on an ERP Solution Analysis effort that will conduct market research into ERP solutions as part of this effort. As part of this analysis, the Lottery will be gathering and analyzing the Lottery's current processes, future needs and analyzing our needs against Epicor and other ERP products. The result of this analysis will determine whether Epicor still meets the Lottery's needs. The current estimated completion date of the analysis is March 2027, that is dependent on resource constraints and availability. As such, the Lottery is making a conscious business decision based on

a business and operational needs to continue with Epicor until such time the Lottery can effectively evaluate and support a transition to a potential new product based on operational resources and priorities.

The Lottery utilized a Non-Competitive Bid process with the current Epicor contract, as the E10 system is proprietary and Epicor continues to be the only provider for Epicor support. Since the Lottery is entering into a new contract to continue the software support and hosting services, formal competitive procedures will not apply to this procurement, pursuant to the exception set forth in the Lottery Regulations Section 8.1.2.D, which applies as follows:

“The Director has determined, after a good faith effort to locate potential bidders, that only one viable source exists for the goods and/or services due to proprietary interests, licensing restrictions, or any other reason.”

RECOMMENDATION

The Lottery recommends the California State Lottery Commission approve a new contract with Epicor for software and hosting services, with a maximum contract expenditure amount of \$1,429,748.64 and a four-year with term, beginning December 24, 2023 and ending December 23, 2027.