



M E M O R A N D U M

Date: September 19, 2023

To: California State Lottery Commission

From: Alva V. Johnson, Director 

Prepared By: Jennifer Chan, Deputy Director
Information Technology Services Division

Subject: Item 8(h) – Lottery Gaming System Contract Amendment 23

ISSUE

The California State Lottery (Lottery) seeks approval to extend the current International Gaming Technology (IGT) Lottery Gaming System Contract (Gaming Contract), to address the Lottery's Player Direct/2nd Chance platform which is on outdated and unsecure technology that contains significant prevalent IT security and technical risks. The amendment will allow the Lottery to upgrade the Player Direct/2nd Chance platform, provide adequate time to conduct robust contract market research, develop a new solicitation as appropriate, provide support for ongoing operations, and to secure additional benefits that will aid in maximizing the Lottery's supplemental funding to education. The current contract term ends on October 31, 2026. The proposed amendment would include a seven-year extension, ending on October 31, 2033, with five additional one-year extension options. The proposed increase in contract funding is \$974,825,000, bringing the total maximum contract amount to \$3,224,825,000.

BACKGROUND

The Gaming Contract encompasses products and services at the very core of Lottery operations, including the Lottery's Gaming System, retailer equipment, retailer support, and telecommunications. Without these critical systems and services, the Lottery could not operate or fulfill its mission. The services provided through the contract include the operation of a complex, integrated gaming system that manages billions of gaming-related transactions annually through a cellular communications network.

The contract includes support and maintenance of more than 130,000 pieces of gaming equipment at more than 23,000 retailer locations; software development and support for

gaming and administrative applications; 24-hours-per-day, 7 days-per-week retailer technical support; operations of primary and backup data centers; and production and services in support of Lottery operations.

According to LaFleur's World Lottery Almanac 2022, the top 10 states with the highest sales have contracts with IGT for gaming services. California has seen the highest percentage of sales growth over the last five years at 27%. Out of 23 states that contract with IGT, California's fees are the seventh lowest.

DISCUSSION

The Lottery Player Direct/2nd Chance platform offers players the ability to engage with the Lottery and to participate in 2nd Chance draws and other promotional activities. The current Player Direct/2nd Chance platform contains legacy, end-of-life (EOL), and end-of-support (EOS) technology that is no longer supported and must be upgraded to resolve security issues. This presents a significant security risk as well as on-going security related events. Due to the public facing nature of the 2nd Chance system and the perceived value of player data housed in the system, it represents a high percentage of cyber-attacks against the Lottery. Over the past 9 months, the use of staff and vendor resources for tracking and remediating attacks against the 2nd Chance system has far exceeded time spent managing attacks on other Lottery systems. The ability to add new features is extremely limited and prevents the Lottery from achieving business goals. The Lottery needs an immediate solution to fix the Player Direct/2nd Chance platform issues, and this solution must align with the Lottery's long-term strategy for conducting a comprehensive review of our gaming system needs, services, and support.

This proposed amendment provides a significant value and advantage to the Lottery beyond the Player Direct/2nd Chance platform upgrade. This amendment allows for a seven-year extension with five optional one-year extensions to support required technical and platform gaming system upgrades. This will provide adequate time for the Lottery to complete the Gaming Contract Market Research needed to develop a new solicitation, as appropriate, and adequate time to transition services to a new vendor if required.

The proposed amendment will continue the cap on fixed monthly fees for retailer gaming equipment maintenance and storage services, saving approximately \$10.5 million per year. Additionally, the amendment includes changes to IGT compensation provisions resulting in further savings for the Lottery. Under the new amendment, IGT will earn 1.0735 percent of the Lottery's annual sales amount up to and including \$5 billion and 1.0000 percent of annual sales above \$5 billion. While these same percentages are included in the current contract, the threshold for the lower percentage is being decreased from \$7 billion to \$5 billion.

In addition to the Player Direct/2nd Chance platform upgrade, the Lottery will move forward with previously approved pilots and complete upgrades that may have otherwise been delayed during the possible transition to a new vendor as the result of a solicitation. Below is a summary of these changes, provided at no additional cost to the Lottery:

- **Digital Platform Upgrade:** Transition to the latest IGT Digital Lottery platform with full system migration to the cloud.
- **Gaming System Platform Upgrade:** IGT will provide and deploy a new gaming system upgrade to the cloud.
- **VSAT COMM:** IGT will replace the entire VSAT COMM network with cellular technology, with completion estimated to be in the third quarter of fiscal year (FY) 2024-25.
- **Dual COMM:** IGT will expand the current dual COMM solution provided in Amendment A16. Four thousand nine hundred fifty (4,950) Retailer ProS2 clerk terminals will be fitted with the Dual COMM solution and deployed at high volume retailers designated by the Lottery.
- **Retailer Portal, Sales Wizard and Order Wizard migration to Cloud based solution:** IGT and the Lottery will mutually agree to the Order Wizard migration to a cloud-based solution, with the parties using best efforts to conclude such migration no later than the second quarter of FY 2025-26.
- **IGT Scratchers Digital Menu Board Pilot:** IGT will develop and support fifty (50) 22" HD monitors and fifty (50) media Show Connect devices, with installation to Lottery-designated retail locations.
- **Two Carmanah Digital Pilots:** IGT will make available fifty (50) Digital Mega-Menu Boards and fifty (50) Digital Play Stands for one hundred (100) retail locations.
- **Cashless Pilot:** IGT will enable cashless functionality for the purposes of a pilot program on GT28 self-service terminals.
- **Retailer Training Pilot:** IGT will provide an on demand, online training program for one full year, allowing the Lottery to assess the effectiveness of in-classroom training vs. on-demand.
- **Refurbishment for swap-based projects:** For existing vending machines or clerk terminal swap initiatives; IGT will provide de-installation, refurbishment, and re-installation in addition to their normal maintenance and repair services.
- **Software support services:** An allotment of twenty-four thousand (24,000) annual software hours will be extended and offered in this amendment through October 31, 2033.
- **Increased Full Time Staffing Support:** IGT will provide additional staffing support within twelve (12) months of executing the Amendment.

- **Security Operations Center (SOC):** IGT will provide an SOC throughout the duration of the Contract.
- **Retailer Equipment:** The proposed amendment includes the following new equipment in the following quantities:

Equipment Type	Quantity
Retailer Pro S2 Clerk Terminals	6,275
GameTouch 28-Bin Vending Machines	4,016
Retailer Expansion Equipment Configuration Package	550
3-Tier Backlit Window Jackpot Signs	2,450
2-Tier Backlit Window Jackpot Signs	2,450
22" HD Monitors	20,000
In-Lane Jackpot Signs	200

In addition to the platform upgrade, technology initiatives, and ongoing operational support, a seven-year extension will provide the Lottery adequate time to support a long-term strategy to perform the required Gaming Contract Market Research and Solicitation Development project. The long-term strategy provides the time needed for complete planning of gaming system market research and the subsequent solicitation development activities, as needed. The Lottery has determined that the level of complexity involved in market research and solicitation development for potentially replacing the gaming system, whether it be the replacement of the entire gaming ecosystem or the award of multiple gaming services contracts for multiple component systems, requires a minimum seven-year extension of the current IGT contract. While the Lottery has begun efforts under the Gaming Contract Market Research and Solicitation Development project, sufficient time does not remain in the current contract period to complete comprehensive market research and identify all needs and requirements for a potential gaming system solicitation effort. An additional 5 one-year options will be included to support that effort and other Lottery business efforts, as necessary and appropriate.

The results of performing robust and comprehensive gaming system contract market research may result in one or more solicitation efforts and possibly the conversion to a different gaming system provider and can take years to realize a successful completion. The scope of the previous gaming system upgrade (which took place during the term of this Contract) took over three years, from the start of developing requirements specifications to the system going live, and included only replacing the core gaming system and back-office applications. The previous gaming system upgrade did not include replacing all the attached systems or other products or services provided by IGT. Using this as a baseline for comparison, if the Lottery were to replace the entire core gaming system, significantly more time would be needed up front to create all the requirements specifications. The scope would be much larger as it would include all IGT systems and subsystems.

This strategy eliminates the need to do one or more additional amendments during the Gaming Contract Market Research and Solicitation Development project, demonstrating the Lottery's commitment to a strategic, calculated, and measured approach toward conducting thorough market research and developing a competitive solicitation, as appropriate. The total cost for the initial seven-year extension is \$974,825,000.

RECOMMENDATION

The Lottery recommends that the California State Lottery Commission approve amending the Lottery's Gaming System contract to extend the term by seven years, with five optional one-year extensions, and increase the total contract amount by \$974,825,000. The new maximum contract amount will be \$3,224,825,000, with a term ending on October 31, 2033.