



M E M O R A N D U M

Date: June 20, 2019

To: California State Lottery Commission

From: Nicole Soluri, Chief Deputy Director *NS* [Initials on file]

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Subject: Item 8(b) – Scientific Games International, Inc. Instant Ticket Printing Contract Amendment

ISSUE

The California State Lottery (Lottery) contracts with Scientific Games International, Inc. (SGI) as the primary vendor for instant tickets (Scratchers®) production. Additional funds are requested both for the current contract term that is set to expire on November 30, 2019 and for the proposed contract extension.

BACKGROUND

As a result of a formal solicitation in 2013, the California State Lottery Commission (Commission) approved a six-year contract award to SGI, with the option to extend for one additional three-year term and three additional one-year terms, with a maximum authorized contract expenditure amount of \$100 million. The initial term of this contract is December 1, 2013 through November 30, 2019.

DISCUSSION

As the primary vendor, SGI is responsible for printing approximately 70% of the Lottery's Scratchers tickets. In addition, it provides research and marketing support and assists with product planning.

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 business partner providing a quality product, and up-to-date trends and on-site expertise. SGI has proven to be a responsive vendor that has helped the Lottery increase Scratchers sales from approximately \$3 billion in 2013 to over \$4.5 billion in 2017.

As there continues to be only three instant ticket printing vendors nationwide and the Lottery has contracts with each of them, issuing a Request for Proposal (RFP) would not result in locating new vendors capable of producing tickets meeting industry specifications. The Lottery is also seeking approval to extend its contracts with IGT Global Solutions Corporation and Pollard Banknote Limited, the other two instant ticket printing vendors.

SGI provides the comprehensive, highly specialized services required for printing Scratchers. Exercising the three-year contract extension option will help ensure uninterrupted product sales and save valuable staff time and the expense associated with releasing an RFP.

The original contract expenditure authority was \$100 million for the initial contract term. Based on average monthly invoices and expected growth within the Scratchers product line, staff has estimated that the currently-remaining expenditure authority is insufficient to cover costs associated with the Lottery's product needs for the remaining portion of the initial contract term, which ends on November 30, 2019. Therefore, staff requests \$6 million in additional funds for the initial contract term and a \$70 million increase in funds for the proposed three-year extension period.

Additionally, in anticipation of the extended term, staff has amended or removed outdated and/or unnecessary contract language and has proposed more competitive pricing.

With the approval of the \$76 million in additional funds for the initial contract term and the three-year extension, the new contract expiration date would be November 30, 2022 and the maximum authorized contract expenditure amount will be \$176 million.

RECOMMENDATION

Lottery staff recommends that the Commission approve an increase in expenditure authority for the initial contract term and an extension of SGI's instant ticket printing contract for three years to November 30, 2022. The proposed extension will add \$76 million to the contract, for a maximum authorized contract expenditure amount of \$176 million.