

## COMMISSION AGENDA ITEM

### Item 8(e) – Microsoft Enterprise License Agreement Renewal



**Date:** January 22, 2026

**To:** California State Lottery Commission

**From:** Harjinder K. Shergill Chima - *HKC*  
Director

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Information Technology Services Division

**Subject:** **Item 8(e) – Microsoft Enterprise License Agreement Renewal**

### ISSUE

The California State Lottery (Lottery) seeks Commission approval to renew the Microsoft Enterprise License Agreement (MELA) subscription for a three-year term. The total agreement amount for the MELA is \$8,556,432.66 with a term date of March 1, 2026, through February 28, 2029.

### BACKGROUND

The MELA program allows the Lottery to manage current and future software license and cloud services needs under one agreement. The agreement supports Microsoft's suite of enterprise products, platforms, and cloud services, which provide the software and computing resources needed to support Lottery business operations. These products and platforms include Data Center server operating systems, software development tools, system support tools, and cloud services, all of which support critical business functions and enable the Lottery's ability to scale. Examples of how these products are utilized by the Lottery are listed in the table below.

| Product                  | Usage  |
|--------------------------|--|
| Windows Server           | Hosts applications, files and databases  |
| SQL Server               | Database licensing for applications and data storage   |
| Azure DevOps Server      | Project and application development assignment and tracking  |
| Visual Studio Enterprise | Application development platform   |
| Intune Management Suite  | Endpoint patching, software installations, and security policy compliance  |
| Azure Cloud provision    | Hosts the Lottery's public website, mobile app APIs, various business applications, and business continuity platform |

For over twenty years, the Lottery has obtained substantial cost-savings by procuring enterprise software licenses and services through a single master agreement with Microsoft. The Lottery currently utilizes two key services which fall under the MELA:

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Server Enrollment and subscription licensing – the Server Enrollment subscription includes server tools enabling critical infrastructure functions such as software virtualization, application development, network management, and database administration to ensure the Lottery’s technology infrastructure is fully operational and available at all times. In addition, the Lottery utilizes a suite of development and management tools, such as Azure DevOps Server for Development; Visual Studio Enterprise as an application development platform; and, Intune Endpoint Management system for computing device patching, software distribution, and security policy compliance.

Azure Cloud Services – the Lottery utilizes Microsoft’s Azure Cloud Services (Azure) platform which provides a wide variety of cloud services from a vast network of highly available datacenters. Since 2015, the Lottery’s Public Website has been hosted in the Azure environment and supports the ongoing enhancement of the features and capabilities of our player experience. In 2019, the Lottery began using Azure to support internal Lottery business applications and services to reduce operational costs associated with on-premises infrastructure and to improve operational efficiency, scalability, and stability. Within the last three years, as part of the Lottery’s ongoing commitment of providing an enterprise grade computing environment, the Lottery has migrated from a physical backup infrastructure to a modern, cloud-based business continuity solution in a redundant Azure environment. Last, work continues to migrate additional applications and services to Azure, such as the Lottery’s Business Intelligence and Analytics System.

### **DISCUSSION**

The MELA provides the Lottery with flexibility to respond to changing business priorities by streamlining software license and cloud service management under one agreement.

The Server Enrollment is licensed-based and renewing these services under the MELA allows for instant adjustments to Server Enrollment software licensing at any time during the agreement. This flexibility optimizes the budget while ensuring there are no delays in provisioning software or legal risks due to licensing non-compliance by automatically aligning to current Lottery business needs and usage. A simple annual “true-up” for net new licenses added covers any increases. Based on our projected growth and historical usage, the Lottery has determined that a 15% allocation of the renewal cost is sufficient to cover the anticipated true-up costs over the three-year term of the agreement for Server Enrollment software licensing costs. The 15% true-up cost allocation was determined using trend analysis of the last two MELA’s spanning the past six years and taking into consideration future growth and modernization efforts the Lottery is undertaking.

Azure Cloud Services under the MELA are billed on a “pay as you go” subscription model. Based on an analysis of current Azure subscription data of services utilized, average consumption rates, and forecasting the current and future Azure Cloud Services related efforts, the Lottery has determined, based on best available information and current/future planning, \$6.9M is sufficient to cover all Azure Cloud Services costs over the three-year term of the MELA.

Continuing to utilize MELA for cloud and server products provides the Lottery cost saving benefits while ensuring operational continuity and growth within a well-supported platform that has proven reliable and extensible over time. If the MELA is not renewed, the Lottery will face

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licensing compliance issues for Windows Server and SQL server products. This affects internal applications, databases, and our ability to host Azure cloud resources, including the Lottery's public website and mobile app.

The detailed costs to procure Server Enrollment, including true-up contingency funds, and the Azure Cloud services for the three-year term of the MELA are outlined below:

| <b>Product Category</b>                               | <b>Total Cost</b>     |
|---|-----------------------|
| Server Enrollment & Subscription Licensing            | \$1,440,376.23        |
| Server Enrollment 15% True-Up Contingency (estimated) | \$216,056.43          |
| Azure Cloud Services (estimated)                      | \$6,900,000.00        |
| <b>Total Cost</b>                                     | <b>\$8,556,432.66</b> |

The Lottery's formal competitive procedures do not apply to this procurement, pursuant to the exception set forth in Lottery Regulations Section 8.1.2.C as follows:

"The goods or services will be acquired using a standard United States General Services Administration Agreement or a State of California, Department of General Services Master Services Agreement, Multiple Award Schedule, Master Rental Agreement, or other such agreement which establishes a list of pre-qualified bidders who have agreed to contract terms and prices."

The Lottery utilized a leveraged procurement agreement, requesting bids from multiple resellers that participate in the Software Cooperative Agreement administered by the State of California, Department of General Services (SCA-24-70-0204G). The lowest bid was submitted by Crayon Software Experts LLC.

### **RECOMMENDATION**

The Lottery recommends that the Commission approve the renewal of the Microsoft Enterprise License Agreement for a three-year term. The total agreement amount is \$8,556,432.66, with a term date of March 1, 2026, through February 28, 2029.