

**To**: California State Lottery Commission **Date**: August 9, 2006

From: Joan M. Borucki

Acting Director

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Sales Division

**Subject:** Item 9(b) – Approval of Contract for Scratchers® Ticket Delivery

to Retailer Services

## **ISSUE**

Should the California State Lottery Commission (Commission) approve the award to United Parcel Service (UPS) of a contract for Scratchers® ticket delivery to the California State Lottery's (Lottery) Retailers?

## RECOMMENDATION

Staff recommends that the Commission approve the award of a three (3) year contract with two optional one (1) year extensions to UPS for delivery of Scratchers® tickets to Retailers for the period of August 20, 2006 to August 19, 2009. The total expenditure authority of this contract is \$10,500,000.

## **BACKGROUND**

The California State Lottery has utilized a contracted Scratchers® ticket delivery service since ticket sales began in 1985. Over the past twenty years, Scratchers® sales have grown to the point where we currently ship approximately 60,000 deliveries per month accounting for \$1.9 billion in sales last fiscal year. All deliveries must be made within 48 hours of pick-up from the Lottery Distribution Centers. The contract requires that the vendor provide additional services such as assigning two full-time staff to each Lottery Distribution Center to assist with shipping Scratchers® orders and producing barcoded shipping labels for each delivery.

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Analysis has shown that the cost for the California State Lottery to provide similar services are prohibitive based on both staffing and equipment requirements.

## DISCUSSION

On June 12, 2006, the Lottery issued a request for Proposal #7649, Scratchers® Ticket Delivery Services, to invite responses from qualified vendors to provide Scratchers® ticket deliveries to our Retail Network. The RFP was advertised in the Small Business Exchange, Challenge News, Disabled Veterans Voice, The Sacramento Bee, the Los Angeles Times, and the San Francisco Chronicle. In addition, solicitation letters were mailed to twenty-four (24) potential bidders. The solicitation was also posted on the California State Lottery Website.

Intents to Bid were received from five (5) firms. Proposals were due by July 7, 2006. United Parcel Service (UPS) was the only vendor to submit a proposal. UPS passed the mandatory submittals evaluation and advanced to the next phase of the evaluation process.

The rated evaluation included: experience and ability to deliver Scratchers® tickets, ability to track Scratchers® deliveries, ability to produce shipping labels, and ability to prevent misdeliveries. The possible ratings as described in the RFP were: significantly exceeds, exceeds, meets, meets with exceptions, and does not meet. UPS received an overall rating of "meets."

The pricing submitted by UPS was reviewed and evaluated by the evaluation team. The first year's bid of \$4.15 per delivery is the same as the current pricing for the 2005-2006 contract. The remaining two years have modest increases of 15 cents per delivery. The additional two 1 year extensions increase by 16 cents per delivery. A fuel surcharge will be added to the delivery cost and is included in the \$10,500,000 expenditure authority of the contract. The evaluation team determined this to be an excellent bid and an overall "best value" for the Lottery.

The contract is scheduled to begin on August 20, 2006 and expire on August 19, 2009 with the option to extend for an additional two years.