MEMORANDUM

To: California State Lottery Commission **Date:** May 24, 2007

From: Joan M. Borucki
Director

Prepared By: Bill Hertoghe, Deputy Director
Security/Law Enforcement Division

Subject: Item 9(b) - Approval to Amend the Contract with HSM Electronic Protection Services, Inc. to Extend Term for Two Years and Add Additional Funds for Security System.

ISSUE

Should the California Lottery Commission (Commission) approve a two-year extension to the contract with HSM Electronic Protection Services, Inc. to continue to provide security services for the California State Lottery (Lottery) statewide?

RECOMMENDATION

Staff recommends that the Commission approve the option to extend the contract with HSM Electronic Protection Services, Inc. for two years under the existing terms and conditions. The two-year extension includes the addition of $600,000 for a total expenditure authority of $2,600,000.

BACKGROUND

The California Lottery Act requires the Lottery to promote and ensure integrity, security, honesty and fairness in the operation and administration of the Lottery. Since inception, the Lottery has ensured that all Lottery facilities are secure by providing a 24 hour, 7 day a week operation of a complete and comprehensive security system. Currently the Lottery contracts with HSM Electronic Protection Services, Inc. to provide security system services such as preventive maintenance of software and equipment, system testing, remote alarm monitoring, equipment repairs, new installations, modifications, etc. at Lottery facilities.

In August of 2004, the Lottery entered into a three-year contact with Honeywell International, Inc. to provide security system services with an option to extend the contract for two years following the initial term. The three-year contract was executed for $2,000,000. In October 2004, the Lottery approved Honeywell International Inc.'s assignment of Contract #9695 to SecurityCo, Inc. SecurityCo, Inc. purchased the security monitoring services from Honeywell International Inc. Per the purchase agreement, for the first year they operated under the name of Honeywell Security Monitoring. On October 18, 2006 Amendment 01 was approved to change the contractor's name to HSM Electronic Protection Services, Inc. In January 2007 Stanley Works purchased HSM Electronic Protection Services, Inc. Stanley Works will continue to operate the security services business under the name of HSM Electronic Protection Services, Inc. (HSM). The three-year term of the original contract, now assigned to HSM, is scheduled to expire on August 31. 2007.

DISCUSSION

Honeywell International Inc. (now known as HSM) has been selected as the most qualified vendor for security system services to the Lottery since 1987. In fact, Honeywell was the only bidder for these services prior to the current contract.

During the first two and one half years of the contract, the Lottery experienced several major upgrades to the physical security systems. The entire Headquarters complex and all the remote sites were upgraded from analog to digital technology and Digital Video Manager (DVM) was installed at all locations. The analog equipment was no longer available for replacement/repair and manufacturers were ceasing to support the outdated equipment. This project involved the changing of access control units, card readers and access badges for the Lottery facilities statewide. The upgrade not only replaced outdated devices with newer technology, it enhanced the performance of the security operating system.

Projections of expenditures for the current contract indicate that a balance of $450,000 will be carried to the extension. This balance has been designated for several projects that were originally scheduled during the term of the three-year contract but have not yet been initiated. The majority of these projects are for scheduled relocations of Lottery operations and system upgrades.

The $600,000 contract extension proposal includes $409,000 for monthly maintenance expenses and $100,000 for projects planned for the two-year term of the extension. The remaining $91,000 has been allocated for system repairs and unexpected modifications.

If the extension is not approved, the Lottery would have to seek bids for a new contract knowing only two vendors are currently authorized to service the EBI software. Costs associated with a new contract would likely exceed the cost to

extend this contract under the same terms and conditions. The costs associated in procuring a new security system would greatly exceed the costs of extending this contract. Additional costs would also be incurred by GTECH, as their contract requires them to interface with the Lottery's security system.