

### MEMORANDUM

Date:	March 25, 2009
То:	California State Lottery Commission
From:	Joan M. Borucki Director
Prepared By:	Terry Murphy Deputy Director, Operations
Subject:	Item 9(e) – Request to Purchase Replacement Vehicles

# <u>ISSUE</u>

Should the California State Lottery Commission (Commission) approve the request to purchase 48 cargo vans, 11 sedans and one truck utilizing the Department of General Services' (DGS) vehicle purchasing master service agreement?

## RECOMMENDATION

California State Lottery (Lottery) staff recommends that the Commission approve the purchase of up to 48 cargo vans, 11 sedans and one truck for an estimated total cost of \$1,570,300.

## BACKGROUND

The Lottery owns 246 vehicles, which are utilized by the Lottery Sales Division (Sales), Security/Law Enforcement Division (S/LED), and Headquarters staff in their everyday contact with retailers. Of the 246 vehicles, 48 Sales cargo vans will be replaced; ten Sales sedans will be replaced; one S/LED sedan will be replaced and one Marketing van will be replaced. All of the 60 vehicles have exceeded the Lottery's replacement criteria, which includes factors such as mileage, age, safety, depreciation, and maintenance costs. The Lottery's replacement criteria are based on industry best practices and are designed to reduce staff "down time" and the loss of productivity.

## DISCUSSION

The Lottery deferred the replacement of a number of vehicles from last year's purchase to this year and is experiencing a slight backlog. If the Lottery eliminates or defers the replacement of vehicles from fiscal year 09/10 to the next year the continued backlog will increase, resulting in a higher number of vehicles scheduled to be purchased the

California State Lottery Commission March 25, 2009 Page 2

following fiscal year. This type of deferral typically only saves immediate funds and causes an overall spending increase in the long term.

DGS has a vehicle contract in place which would allow the Lottery to purchase vehicles at the following prices: (a) 48 cargo vans with delivery and retrofit charges at an average cost of \$26,500 each; (b) 11 sedans with delivery charges at an average cost of \$23,500 each; (c) one truck for Marketing with delivery charges at an estimated cost of \$26,000. Adding DGS fees of \$13,800, the estimated total cost for the purchase of 60 vehicles would be approximately \$1,570,300.

Historically, depending on market conditions the Lottery has either independently bid for vehicles or has chosen to utilize DGS' existing vehicle purchase contracts. As always, the Lottery has taken a proactive approach and researched the current market trends to determine the best possible cost savings. The Lottery discovered that even though vehicle sales are down by as much as 50 percent, the three major U.S vehicle manufacturers are raising their current vehicle prices to attempt to recover these costs. Because DGS' vehicle purchase contracts were awarded in December 2008, DGS received excellent pricing which is actually \$4,500 per vehicle less than current "sticker price." Utilizing DGS' existing contracts would result in an overall cost savings of \$216,000 to the Lottery.

The vehicles would be ordered in April 2009 and delivered to the Lottery in approximately 150 days. The cost of the vehicles will be capitalized over five years beginning with the date of delivery.