



M E M O R A N D U M

Date: February 23, 2012

To: California State Lottery Commission

From: Robert T. O'Neill, Director

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Sales Division

Subject: Item 9(d) – Ratification Request of Scratchers[®] Ticket Delivery Courier Service

ISSUE

Should the California State Lottery Commission (Commission) ratify the award to United Parcel Service (UPS) of a contract for Scratchers[®] Ticket delivery to the California State Lottery (Lottery) Retailers?

RECOMMENDATION

Staff recommends that the Commission ratify the award of a five (5) year contract to UPS for delivery of Scratchers[®] tickets to Retailers. The total expenditure authority of the contract is \$20,000,000.

BACKGROUND

The California State Lottery (Lottery) has utilized a contracted Scratchers[®] ticket delivery service since ticket sales began in 1985. Over the past 26 years, Scratchers[®] sales have grown to the point where we currently ship approximately 60,000 deliveries per month accounting for \$2.1 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.

Analysis has shown that the cost for the California State Lottery to provide a similar service is prohibitive based on both staffing and equipment requirements. The prior contract was entered into after a competitive solicitation process in 2007 and expired on February 19, 2012.

DISCUSSION

On October 6, 2011, the Request for Proposal (RFP) was posted on the Lottery's website and a letter of notification was e-mailed to 10 vendors supplied by the Lottery's Contract's Unit and the Lottery's vendor database. In addition, the RFP was advertised in the Sacramento Bee, Los Angeles Times, Small Business Exchange, Challenge News, and Bidsync.

A total of eight potential bidders attended the Mandatory Job-Site Visit on October 12, 2011. Questions were also received by the October 19, 2011 deadline and the Question and Response document was released on October 26, 2011. Proposals were due by November 29, 2011.

A total of three (3) bidders submitted proposals. They were: Colma Drayage Services, Inc., United States Postal Service (USPS) and United Parcel Service (UPS).

Two (2) bidders passed the Mandatory Submittal Evaluation and were advanced to Part II Rated Submittals Evaluation. The third bidder, USPS did not submit any of the attachments referenced under Mandatory Submittals. Therefore, USPS' bid proposal was disqualified on December 5, 2011.

On December 6, 2011, the review team performed rated evaluations on Colma Drayage Services, Inc. and UPS' proposals. The evaluation team rated and compared proposals in five categories using ratings of Superior, Significantly Exceeds, Exceeds, Meets, Meets with Exceptions, and Does Not Meet. The categories rated include:

1. Experience and Ability to Deliver Scratchers[®] Tickets
2. Commercial Fleet Capability
3. Successful Deliveries to Appropriate Locations
4. Tracking Capability
5. Shipping Labels

For the purposes of evaluation, the Experience and Ability to Deliver Scratchers[®] Tickets, Commercial Fleet Capability, and the Successful Deliveries to Appropriate Locations are equally important. Sections 1, 2, and 3, combined are significantly more important than 4 and 5, which are equally important.

The Rated Submittals Evaluation for both proposals was completed with UPS receiving an overall rating of Exceeds and Colma Drayage Services, Inc. receiving an overall rating of Does Not Meet.

On December 6, 2011, Price Proposal Evaluations were conducted. Small and Microbusiness Participation was considered optional for this solicitation. Colma Drayage Services, Inc. submitted their Small Business certification and the 5% small business preference was applied to their total bid amount. Based on the price sheets provided by

the two (2) Bidder's, UPS was the lowest bidder. From lowest cost to highest cost, listed below are the price sheet evaluation results:

Company	Bid Amount (Total flat rate average for 5 years)	
	Before Small Business Preference	After Small Business Preference
UPS	\$5.11	N/A
Colma	\$5.62	5.39

Pursuant to the Lottery Act and the terms of the RFP, the contract awarded to the Bidder offers the best value to the Lottery. In accordance with the Lottery's competitive bidding procedures, "best value" maximizes greater overall benefits and value to the Lottery.

Lottery staff believes that UPS submitted the proposal providing overall "best value" to the Lottery. UPS was the only Bidder to receive a rating of Significantly Exceeds and Exceeds for Experience and Ability to Deliver Scratchers[®] Tickets, Commercial Fleet Capability, and the Successful Deliveries to Appropriate Locations and also submitted the lowest overall price.

The contract began February 20, 2012 and continues for five (5) years through February 19, 2017, with an option to extend another two (2) years thereafter.

The Lottery Commission was not scheduled to meet until after the new contract term was to commence. Consequently, on January 31, 2012, newly-appointed Lottery Commissioners received Notification of Expedited Contract Award as required by the California Lottery's Omnibus Regulations. Section III.E.12.c of the Regulations provides:

"If circumstances require work under a particular contract to commence prior to the next Commission meeting, the Director may authorize the execution of the contract with simultaneous notification to the Chairman of the Commission. The Director's execution of the contract shall be presented to the Commission for ratification at the next regularly scheduled commission meeting. The Director shall prepare for the contract file a memorandum explaining the rationale for the expedited procedure."

In summary, this expedited contract approval is being presented to the Lottery Commission for ratification at the February 23, 2012 meeting.