



M E M O R A N D U M

Date: May 20, 2010

To: California State Lottery Commission

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Director

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Subject: Item 9(d) – Gaming System Upgrade

ISSUE

Should the California State Lottery Commission (Commission) approve an amendment to the California State Lottery (Lottery) Gaming Contract #7871 with GTECH Corporation (GTECH) that will upgrade the current version of the gaming system in order to support the Lottery's existing and future Business Plans?

RECOMMENDATION

Lottery staff recommends that the Commission approve an amendment to the Lottery Gaming Contract #7871 with GTECH Corporation (GTECH). The amendment will extend the term of the GTECH contract for gaming and telecommunication services for five additional years and will provide the Lottery with a total value of over \$48 million of additional technology, products, and services. Specifically, GTECH will provide the latest version of their gaming system which offers new functionality and greater capacity, along with software consulting services. The amendment will increase the total expenditure authorized by \$400 million, which will cover the annual costs through October 13, 2019 and factors in the projected increase in revenue as a result of the prize payment reform and the new business plan.

BACKGROUND

The Gaming Contract #7871 with GTECH Corporation began October 14, 2003 and will expire October 13, 2014. However, the Lottery and GTECH have the option to continue the contract until either party provides a two-year advance notice of termination. The total expenditure authority for the current contract is \$675 million based on a sales compensation rate of 1.36% with a reduced compensation rate structure that would go into effect when sales are above \$4 billion.

Currently, GTECH has more than 125 employees located in six locations that service the California Lottery. The services being provided under this contract include an integrated gaming system that manages millions of gaming-related transactions through a satellite telecommunications network; support and maintenance of over 86,000 gaming equipment units in approximately 21,000 retailer locations across the state; software development and support for the core gaming and administrative applications; a retailer call center staffed 24 hours, 7 days a week; operation of a primary and backup data center; produce and distribute consumables such as play slips, ticket stock and claim forms; and marketing and research services that support the Lottery's gaming operations.

DISCUSSION

The gaming system is a major foundational component of the Lottery's business. The current California gaming system was built on an early version of GTECH's Enterprise Series (ES) product and has been heavily customized over the years at the Lottery's request. The customizations have increased system complexity and have resulted in higher costs and increased the time to perform maintenance and enhancement activities. With more than 3 million lines of software code, the California Lottery's gaming system is one of the most complex in the industry, worldwide.

The latest ES product has evolved significantly to provide more functionality, a solid scalable platform for future gaming products, and reduced energy consumption. Upgrading the gaming system will enable the Lottery to make business process improvements at all levels of the organization, decrease the time to market of new games and promotions and will significantly reduce the risks in making changes to the system. If the amendment is not granted, the Lottery would not have an upgraded system until October 2014 (which will be too late to provide value to the RENEW projects). If the amendment is approved, the upgraded system will be implemented and in place within 12 to 15 months.

This amendment will provide the Lottery with a total value of over \$48 million in additional gaming system technology, products, and services. The proposed system upgrade will provide the capacity and tools to facilitate the growth and vision of the Lottery's Business Plan and prize payout reform. The amendment will offer an

upgraded gaming system with the latest state-of-the-art technology and will also allow an expanded Player Services package that compliments the player platform currently in implementation. The expanded Player Services package will be a key component of the new Public Website and will facilitate a player loyalty and relationship management system never before used in the Lottery industry. Player Services will also include an enhanced Second Chance Drawing feature, Subscription Play, Player Registration, and Player Claim card capabilities. The amendment will also include a game research testing system called GamePro that can provide live testing later this year for potential Super Lotto Plus replacement games and Hot Spot game changes as part of the RENEW Project. This system will enable the Lottery to test multiple game concepts concurrently and quickly make changes to test games based feedback from players and retailers. Additional functionality includes ticket-by-ticket retailer accounting, integration with retailer point of sale, and advanced reporting. From a capacity standpoint, the new system will have approximately four times greater processing power and storage volume providing the horsepower for unlimited sales growth that will be needed with the prize payout reform. This will allow the Lottery to increase sales which will provide more money to Education.

With the approval of the five-year amendment of the GTECH contract, the new length of the contract will be for 16 years which began in October 14, 2003 and will continue until October 13, 2019 for a total expenditure authority that will not exceed \$1.075 billion.