



STAFF AGENDA MEMORANDUM

DATE OF MEETING: June 22, 2023

AGENDA ITEM: Scientific Games Contract – Increase to Not to Exceed Amount

PRESENTER: James Nielsen, Deputy Director / COO

ISSUE SUMMARY: Maryland Lottery and Gaming Control Agency (“Lottery”) entered into a contract for the provision of a Lottery Central Monitoring and Control System with Scientific Games (“SG”) on May 10, 2017, Contract 2015-01 (the “Contract”). The Contract is for a period of eight years, ending on May 4, 2025. The first year was considered a conversion period and provided no compensation to SG.

The Contract Not to Exceed (“NTE”) amount was initially \$217,126,653 for the base term. Two modifications were approved in the amounts of \$579,250 and \$910,400 allowing the Lottery to sell and market two Instant Ticket Scratch-Off Games (James Bond 007™ and Willy Wonka & The Chocolate Factory™ Everlasting Million Challenge™, respectively). The current total NTE is \$218,616,303.

When the Request for Proposals (“RFP”) for this Contract was released in late 2015, the Lottery estimated annual sales of \$1.9 billion. Compensation to SG is primarily based on a percentage of Lottery sales. The Lottery included funds to purchase a variety of equipment and services in addition to SG’s base offering, but included in its proposal and made a part of the Contract. The estimates for equipment and services to be acquired were developed early in the planning process, and over the life of the Contract the Lottery has acquired certain other equipment and services from SG as permitted under the Contract.

As of May 21, 2023, 264 weeks of the planned 364 weeks in which SG is to receive compensation had elapsed. This represents just over 72% of the Contract term. However, as a result of increased sales levels, which were not envisioned when the RFP was released, the Lottery has paid SG over 94% of the funds expected to be paid as a percentage of sales. Additionally, because of expenditures related to the introduction of debit card readers on self-service equipment and the Contractor Incentive Program, which rewards SG when it helps the Lottery exceed sales growth targets, we have so far expended just over 96% of the total Contract NTE.

While the NTE was based on average sales of just \$1.9 billion annually, the actual average sales now stands at \$2.473 billion, an increase of 30%. This is a sales and revenue success story for the Lottery. The Lottery’s success under the Contract has led to a situation where there are insufficient funds available to continue paying SG for the remainder of the current Contract term.

In order to continue our successful partnership with SG through the term of the Contract, the Lottery is requesting an increase to the NTE of \$87,286,055 which would bring the new total Contract NTE to \$305,902,358.

We note that over the past few years, SG has been falling short of the aspirational goal of spending 20% of the amounts received from the Lottery with Minority Business Enterprises (“MBEs”). Part of this can be attributed to the growth in sales since that is generally not tied to work MBEs are provide under the Contract. Part of it can be attributed to the amount of optional equipment and services the Lottery has acquired from SG over the life of the Contract, which were not typically available from MBE firms. SG has spent several months working to identify additional MBE spending opportunities that are outside their normal business practices in other states. This effort has helped SG identify areas to expand its MBE spend, and SG believes it will meet and exceed the 20% goal for the remainder of the Contract term.

SG has been a very good partner for the Lottery during the term of this Contract. We believe SG will improve its MBE spending and help the Lottery continue to grow over the next two years.

COMMISSION ACTION REQUIRED/REQUESTED: Discussion, consideration and possible action on an increase to the NTE of the Contract.

STAFF RECOMMENDATIONS: Staff recommends approval of the \$87,286,055 increase to the NTE amount for the Lottery Monitoring and Control System Contract 2015-01.