



MEMORANDUM

To: California State Lottery Commission **Date:** October 16, 2007

From: Joan M. Borucki
Director

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Chief Deputy Director

Subject: Item 9(c): Approval to Hire Project Management Consultant

ISSUE

Should the California State Lottery Commission (Commission) approve the hiring of a project management consultant to develop the planning and design of a new headquarters facility and manage its construction? With approval, staff will select and hire a project management consultant to plan, design, and manage the construction of a new headquarters facility.

RECOMMENDATION

California State Lottery (Lottery) staff recommends that the Commission approve the request.

BACKGROUND

A. Acquisition and Description of the Current Facility

The Lottery initially leased headquarters office space and warehouse space at 600 North 10th Street in August of 1985 just prior to the start of Lottery ticket sales in October. The original building was approximately 90,000 square feet, with almost one-half of this space dedicated for warehousing Scratchers® tickets. The original building, which included the Sacramento District Office, was located on a 13 acre parcel. The building is now referred to as Building A.

Within just a few months of occupancy, the Lottery converted about 10,000 square feet of warehouse space into additional office space and relocated the District Office to leased facilities off 16th street. (Note: The District Office was returned to its original location in 1995).

Within a year, the Lottery decided to lease a neighboring 50,000 square foot office building on this same property, now called Building C. At that time, Lottery staffing levels were escalating rapidly and, before long, the Lottery asked the landlord to build a connector office building in between Buildings A and C. The connector building, now called Building B, has approximately 40,000 square feet.

Anticipating that the Lottery would continue to need more office space, the landlord constructed another building on the property, a 77,500 square foot office building now called Building D. This building is located approximately 100 feet north of the Building A/B/C complex.

With aggressive plans for future staff growth, the Lottery purchased the entire headquarters complex in 1989 for approximately \$24 million. Today, the complex consists of two geographically distinct two-story buildings with a total of 270,000 square feet on 13 acres of land. The main building has approximately 164,000 square feet of office space plus approximately 28,000 square feet of warehouse space. The smaller building has approximately 78,000 square feet of office space. Additionally, the Lottery leases 23,424 square feet of warehouse space immediately adjacent to the headquarters facility.

B. Evolution of Space Needs

The Lottery was initiated with approximately 450 employees in 1985 and grew to 1,200 employees in 1990, with about 800 of these employees located in the headquarters facility and the remaining employees located throughout the state in various field offices. In 1991 the Lottery started a downsizing program getting down to about 850 employees in 1993. In 1998, a second round of downsizing brought the Lottery's staffing count down to 650 employees. At the present time, the Lottery has about 620 budgeted positions, with 400 positions housed in the headquarters facility.

In the early 1990's, the Lottery contacted the State Department of General Services (DGS) and made arrangements for leasing out Building D to various state agency tenants. In 1999, portions of Building C were also leased to the State.

At the present time, Building D remains fully leased while Building C does not have any state tenants because most of the Building C surplus space is needed as staging area space to accommodate a major floor renovation project in Building B which is now under construction.

C. Deficiencies of Current Facility

The Existing Facility is Too Large

The existing headquarters facility has more than twice the amount of office space needed by the Lottery. This requires the Lottery to become a lessor, which creates security issues and management challenges. When the Lottery has leased out portions of the main building to other state agencies, there have been significant security concerns even though badge protected doors separated the leased space from the Lottery occupied space (which is a nuisance from a staff mobility standpoint). The existing headquarters facility is expensive to operate, with facilities management activities becoming increasingly more complex and distracting.

The Facility is Costly and Time-Consuming to Maintain

At the present time, over \$8 million in building upgrades are pending, including a major ADA compliance upgrade, a number of health and safety upgrades, and an array of energy efficiency modifications. The depreciation on building upgrades will shortly increase significantly, and more and more building deficiencies will be identified.

Alfa Tech Cambridge, the Lottery's outside consultant, estimated that it would take \$12 million to bring the current facilities up to commercially acceptable standards.

The depreciation on the original building value is about \$500,000 per year, while the depreciation on building improvements is now about \$1,000,000 per year and growing. The existing headquarters facility has reached the end of its useful life and is at a point where maintenance and depreciation costs exceed the value of the building. For perspective purposes, consider that a new building with a structural cost of \$30 million would have annual depreciation costs of only \$769,000, about one-half our current building depreciation costs.

Additionally, with an aging and oversized facility that continues to deteriorate, ongoing maintenance and building security expenses are high.

The Facility is Not Efficiently Designed

The main headquarters building was created by building a connector building in between two geographically distinct smaller buildings, creating a single long, but irregular shaped building.

With its elongated, irregular shape, the current headquarters facility promotes staff isolation and frustrates teamwork. Staff enclaves are geographically walled off, and typically niched into the building edges. These inefficiencies impede staff productivity, creativity, and teamwork.

Adding to this dysfunctional situation is the fact that our computer systems are located on the flood-vulnerable first floor, and a major part of our first floor was built to house a computer data center, something we no longer house on site.

Significant Portions of the Facility are Obsolete

The headquarters facility contains a 28,000 square foot warehouse which does not meet the Lottery's business needs. A contracted consulting firm recommended many costly warehouse modifications (e.g., sky lights, sealed floors, new racking systems, improved delivery truck access), and the Lottery has acquired a more suitable warehouse facilities at a separate location.

The facility was built to house a major data center, so there are substantial amounts of raised flooring, a power backup infrastructure, and halon protected zones. Most of this data center infrastructure is now obsolete because the Lottery no longer operates a data center.

The Lottery's administrative servers and the vast majority of all related computer equipment are located on the flood-susceptible first floor and escape routes in the event of a flood are not ideal.

In addition, the facility is not efficiently designed and suffers from perpetual heating and cooling problems.

DISCUSSION

The Lottery's existing headquarters facility no longer meets the Lottery's business requirements. Consequently, the Lottery should secure a replacement headquarters facility that is sized and constructed to meet the Lottery's business needs.

Lottery staff used consultants to help determine the best option for the Lottery. Various options were evaluated including renovating the current building, purchasing and modifying another building, new construction in a different location, and new construction on the existing location.

Renovating the existing facility is estimated to cost \$12 million to bring the facility up to commercially acceptable standards in addition to \$8 million in pending building upgrades, including major ADA compliance upgrades, a number of health and safety upgrades, and an array of energy efficiency modifications. These efficiency modifications would not include the energy efficiency and green building standards suggested by Cal EPA and the Governor's Office. The Lottery will have to continue to lease excess space, consolidate work space, and make tenant improvements. This option will not address the Lottery's security, efficiency, and facilities management concerns.

It was determined that the best option is new construction on the existing location from a cost, productivity, and business needs perspective. The Lottery currently owns the property it occupies; the property is large enough to accommodate a new building (although part of the existing facility will need to be demolished); there is the potential for multi-use facilities; property values will escalate with redevelopment of the River District; and the location is preferred by employees.

In order to secure a replacement headquarters facility, staff recommends that the Commission approve the hiring of a project management consultant to develop the plan and design of a new headquarters facility and manage its construction. Managing the construction of a new headquarters facility is a highly complex undertaking that the Lottery does not have the expertise to accomplish. The project management consultant will provide all services from start to finish except actual construction but including construction management. Acquiring the comprehensive services of an experienced consultant specializing in real estate planning, design, and construction will ensure the construction of a facility in a cost effective manner that meets the Lottery's business needs.

Staff estimates that the total cost of a project management consultant will be between \$4 million and \$6.5 million over 3 years depending on the level of services provided. This does not include actual building construction costs which will range anywhere from \$40 million to \$60 million. This is a very conservative, high-end estimate. Staff will return to the Commission for approval of building construction once we have a cost estimate.

If approved, staff plans to select a project management consultant to begin work in November 2007. Project scope and building design is estimated to be completed by the first quarter of 2009. Construction is estimated to commence in the first quarter of 2009 and be completed by the fourth quarter of 2010.

SUMMARY

The existing headquarters facilities does not meet the Lottery's business needs, is costly to maintain and upgrade, and increasingly difficult to manage. The services of a qualified project management consultant that will provide comprehensive services from start to finish are required to ensure the new facility is designed and constructed in a cost effective manner that meets the Lottery's business needs.