



MEMORANDUM

To: California State Lottery Commission **Date:** August 15, 2007

From: Joan M. Borucki, Director
California State Lottery

Prepared By: Patricia Eberhart, Deputy Director
Finance and Administration Division

Subject: Item 9(i) - Purchase of Real Property in West Sacramento for the
Northern California Distribution Center

ISSUE

Should the California State Lottery Commission (Commission) approve the purchase of real property in West Sacramento for the Northern California Distribution Center?

RECOMMENDATION

Staff recommends the approval to purchase real property at 2920 Ramco Street, West Sacramento, for the Northern California Distribution Center for \$4.9 million.

BACKGROUND

The California State Lottery (Lottery) has occupied the same warehouse space since 1985. This 28,000 square foot warehouse is located at the Lottery Headquarters site and stores Scratchers[®] tickets and point-of-sale items for distribution to Northern California retailers. This warehouse no longer meets the Lottery's space needs. The Lottery also rents an additional 18,000 square foot warehouse near the Headquarters site for supplies and archive storage.

The number of Scratchers ticket games and the number of point-of-sale items have grown dramatically over the past twenty years, and the warehouse is overcrowded, leading to inefficiencies and some potential safety concerns. As a result of this growth, the warehouse functions should be moved to larger facilities and combined

with the supply and archiving functions to provide for a more efficient and safer operation.

The Lottery engaged an independent consultant to assess the Lottery's needs and provide recommendations for efficiencies and financially viable solutions for the Lottery's distribution centers. The consultant's recommendation included using a pick-to-light packing technology, push-back racking, centralizing the distribution of the Lottery's point-of-sale items to the Southern California Distribution Center and additional well-designed space.

DISCUSSION

The proposed Northern California Distribution Warehouse property is a Class A industrial building (zoned M1 for light industrial use) located in the Southport Business Park in West Sacramento. The property is 57,408 square feet, including approximately 5,700 square feet of office space. Approximately 17,000 square feet in the property is currently occupied by a tenant paying \$65,600 per annum, whose lease expires on September 1, 2009.

This site is appropriately sized and priced within current market values. The building is located on Ramco Road in West Sacramento near the main branch of the United States Post Office and the main distribution centers of both UPS and FedEx. It is located within an approximate fifteen minute drive from Lottery Headquarters, and can be easily accessed from Interstate 80.

The acquisition price for the seven-year old building is \$4,775,000, with an additional \$125,000 for existing racking and warehouse equipment. This building will require minimal tenant improvement (TIs), estimated not to exceed \$410,000. The TIs include the installation of a pick-to-light and push-back racking systems, installation of a new security system, and modifying telecom cabling and modular furniture to meet the Lottery's needs. All improvements can be accomplished relatively quickly and the operation can be in place in the new facility within 120 days after acquisition.

The purchase of this property and the addition of the tenant improvements will be depreciated over a thirty-nine year period. If the Lottery's transaction is complete by the end of the calendar year, approximately \$70,000 will be expensed this fiscal year. The annual capitalized expenses for this property will be approximately \$140,000 per year.

The Lottery currently pays \$106,832 annually for the auxiliary warehouse space at 800 North 10th Street and when the two warehouses are combined, the Lottery will no longer need to lease this space. The termination clause of this lease allows the Lottery to terminate with 60 days notice.

Staff is performing the necessary financial due diligence which includes requesting an appraisal, a survey report and a phase 1 environmental impact report. The Legal Office has retained outside counsel with real estate expertise to review real property purchase transactions, and the cost associated with these services are included in the Legal Office's current budget. Additionally, a security review will be completed as required by the Lottery's regulations. Both the Sales Division and the Security and Law Enforcement Division have approved this location as meeting their business needs.