



M E M O R A N D U M

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**Date:** June 26, 2009

**To:** California State Lottery Commission

**From:** Joan M. Borucki  
Director

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**Subject:** Item 9(f): Contract Award of New Headquarters Building Construction

**ISSUE**

Should the California State Lottery Commission (Commission) approve the negotiation and award of a contract to Otto Construction to perform pre-construction services and construction of a new headquarters facility for an amount not to exceed \$53.7 million, plus a contingency allowance of \$9.1 million and an escalation allowance of \$1.0 million?

**RECOMMENDATION**

California State Lottery (Lottery) staff recommends that the Commission approve the request to negotiate and award a contract to Otto Construction to perform pre-construction services and construction of a new headquarters facility for an amount not to exceed \$53.7 million, plus a contingency allowance of \$9.1 million and an escalation allowance of \$1.0 million.

**BACKGROUND**

**A. Prior Commission Items**

At its January 28, 2009 meeting the Commission took its two most recent actions related to the new headquarters facility. The first was the adoption of the Mitigated Negative Declaration for the California State Lottery Complex Project, as well as the supporting Mitigation Monitoring and Reporting Program. This item related to the

entire Lottery headquarters campus, the first phase of which is the Lottery's new headquarters building. The second item at the January 2009 meeting was the approval to award a contract for the final design of a new Lottery Headquarters building. This contract was executed on January 31, 2009 and work is underway.

## **B. Headquarters Design**

Working with Lottery staff the Lottery's architect, LPAS, has verified and refined the preliminary design work that had been completed. The conclusion of this work is that a building of approximately 155,560 square feet, configured in 6-stories will best meet the needs of the Lottery. The building design is targeting a Gold and possibly Platinum Leadership in Energy and Environmental Design (LEED) certification. Some of the elements of the design that benefit the environment over typical construction include:

- Photovoltaics – A portion of the new headquarters roof area will be covered with photovoltaic cells that will produce electricity on-site. This contributes toward the Lottery being able to operate "off-the-grid".
- Daylight Harvesting – A large percentage of typical office building utilities consumption goes to lighting. The Lottery will be utilizing daylight harvesting to minimize energy consumption attributed to lighting. Daylight harvesting maximizes the benefit of natural light that enters an area by monitoring the overall light levels and supplementing with electrical lights only to the extent needed. Additionally, where the amount of light entering an area would drive temperatures up, window coverings will automatically be adjusted down to minimize that heat gain.

LPAS has completed the schematic design phase and will begin the design development phase once the construction contractor is available.

## **DISCUSSION**

### **A. Contract Type**

The Lottery will be utilizing the Design-Assist methodology to deliver the headquarters project. Design-Assist includes bringing the construction contractor into the design process and provides a significant advantage to the Lottery. Design-Assist provides better value to the Lottery since the construction contractor is working closely with the architect during the design phase and providing their expertise when key decisions are being made regarding material selections and construction methodologies. The result is that the Lottery receives more accurate cost information during design and the risk of cost overruns in construction is significantly reduced.

Using Design-Assist the Lottery will enter into an agreement with a construction firm with a defined pre-construction services fee and a negotiated Guaranteed Maximum Price (GMP) for the construction cost. The GMP will be developed following the completion of the construction documents which are currently scheduled to be complete in February 2010. Should the GMP exceed the amount that had been previously approved by the Commission, an item would come back to the Commission with Lottery staff's recommendation at that time.

## **B. Procurement Methodology**

Lottery staff is recommending a construction contractor for the new headquarters building based on Best Value for the Lottery.

On March 18, 2009 the Lottery issued Request For Proposal (RFP) 6122, for pre-construction services and construction of the Lottery headquarters building. Proposals were due to the Lottery on April 17, 2009 and 14 were received. The procurement process includes a Mandatory Submittal Review, Rated Submittal Evaluation, Interviews, Price Assessment, and finally Best Value Analysis.

Following the Mandatory Submittal Review all 14 companies moved forward to the Rated Submittal Evaluation process. Through the evaluation of the 14 companies Rated Submittals, seven companies moved forward to the interview process. The interview process resulted in all seven companies proceeding to the Price Assessment. The same seven companies proceeded to Best Value Analysis which included consideration of all of the information provided by the contractors in their written proposals and interviews, the prices submitted by the contractors, and reference checks. The conclusion of the Best Value Analysis is that Otto Construction provides the best value to the Lottery for the project and is the recommended contractor for the Lottery's new headquarters project.

The Lottery was fortunate to receive proposals from many well qualified firms. If, for any reason an agreement is not reached with Otto Construction, it is recommended that the Lottery negotiate an agreement with one of the following firms:

- Skanska USA Building Inc.
- Rudolph and Sletten, Inc.
- DPR Construction, Inc.

## **C. Estimated Construction Costs**

A preliminary estimate for construction of the new headquarters facility was developed as part of the development analysis that was prepared for the Lottery campus by Richards Boulevard Joint Venture, LLC (RBJV). Recently, the Lottery's architect, LPAS (formerly LPA, Sacramento) completed the schematic design phase

including an estimate for the headquarters building and associated costs. The LPAS schematic design estimate includes the most current information about the building and was prepared with a more detailed analysis. The following table shows a comparison between the preliminary estimate and the current one.

	<b>Preliminary RBJV Estimate</b>	<b>Proposed Schematic Design Budget</b>	<b>Difference</b>
Demolition, Site Work and New Building	\$45.8	\$46.9	\$1.1
Pre-Construction Services Allowance	\$0.0	\$0.4	\$0.4
Green Building Elements including daylight harvesting, ice storage, and rain water harvesting	\$0.0	\$0.7	\$0.7
Building Operation Efficiency Elements including additional area, a service elevator, and a central plant	\$0.0	\$1.7	\$1.7
Modular and Loose Furniture	\$1.9	\$4.0	\$2.1
<b>Pre-Construction and Construction Cost Subtotal</b>	<b>\$47.7</b>	<b>\$53.7</b>	<b>\$6.1</b>
Design and Construction Contingency Allowance	\$4.6	\$9.1	\$4.6
Escalation Contingency Allowance	\$3.4	\$1.0	-\$2.4
<b>Construction Contract Total with Allowances</b>	<b>\$55.7</b>	<b>\$63.9</b>	<b>\$8.2</b>

NOTE: All numbers shown are millions of dollars (x 1,000,000).

As seen in the table the Schematic Design estimate is different than the preliminary estimate due to a combination of factors including:

- a more accurate assessment of the site work that will be required,
- the cost of bringing the construction contractor on during the design phase,
- the additional focus on the “green” elements,
- the addition of elements that will make the building operation more efficient,
- a more accurate assessment of modular and loose furniture,
- a more reasonable contingency allowance for design and construction, and
- a lower anticipated escalation in construction costs.

#### **D. Financial Impact of Construction Costs**

During construction of the building, payments to the contractor will be recorded as an asset. This means these cash outlays are not reflected as an expense and therefore do not affect the amounts transferred to Education.

Once the building is occupied, the cost of the asset (building) will be depreciated over 39.5 years. Depreciation costs are recorded as an expense and are a component of the Lottery's Administrative Expenses which are limited to 16% of total revenues. It is estimated that depreciation expense on the new building will be comparable to the depreciation costs for our existing building. Therefore, the new building will not have a significant impact on the Lottery's annual Administrative Expenses.

Ultimately our annual Administrative Expenses will be lower because the maintenance and operation costs of the existing buildings are a drain on the Lottery budget.