

To: California State Lottery Commission Date: May 20, 2008

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Director

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Subject: Item 9(g) – Solicit Proposals for Design and Construction Contract

for a Replacement Headquarters Facility

<u>ISSUE</u>

Should the California State Lottery Commission (Commission) approve the advertisement for a contract to perform final design and construction of a new headquarters facility? If approved, staff will issue a request for proposals (RFP) for the final design and construction of a new headquarters facility. Award of the contract will require a separate Commission approval that will be brought forward at the August 20, 2008 meeting.

RECOMMENDATION

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

BACKGROUND

Lottery staff has worked with project management, development, engineering and architectural professionals to:

- Develop a comprehensive site plan for the entire Lottery headquarters site;
- Perform preliminary design for a new Lottery headquarters; and
- Determine the best procurement process to utilize for final design and construction of the new Lottery headquarters.

The work of these professionals has shown that the construction of a new Lottery campus on the existing 13 acre site will accomplish three goals:

- To downsize the Lottery headquarters in a modern building that meets commercial standards, accommodates disability access, and incorporates sustainable design features consistent with the Governor's Green Building Initiative:
- To develop the remainder of the 13 acre property as an ongoing source of revenue that will offset the cost of the new Lottery buildings and provide increased cash flow to offset the cost of ongoing Lottery operations; and
- 3. To support the overall River District area redevelopment efforts.

Reducing the size of the existing Lottery headquarters is part of both a long-term development plan for maximizing the value of the state's investment in this property and the Modernizing Operations goal of the 2007-2010 Business Plan. Implementation of the plan will reduce administrative costs and increase efficiency in operations.

Beginning in 2006, the Lottery Commission conducted a careful step-by-step evaluation by independent engineering and property management companies. These analyses reviewed the value of the property, the cost of maintenance and required repairs to the existing facilities, and alternative plans for increasing revenue from the state's investment. They found that renovating the existing building would be a more expensive, short term fix, that would simply delay the need to construct a new building.

Investing in a new headquarters building is a smart financial decision considering the expense required to bring the facility up to existing standards for commercial buildings. More efficient use of the 13 acre Richards Boulevard site will bring increased rental revenue from enhanced leasing contracts; and the property value will continue to rise as the River District redevelopment efforts move forward in conjunction with the Lottery project.

The existing building requires \$20 million worth of renovations and upgrades to meet modern commercial standards and ADA requirements. The maintenance and operation costs of the building are a drain on the Lottery budget, and the time has come to consider a more lasting solution instead of quick fixes that prolong the problem. The current economic downturn provides an opportune time to construct a new building as prices flatten after years of rapidly increasing construction costs.

This project will not be built with any taxpayer dollars. It will not take away any money from the state budget or education funding, and will instead result in reduced administrative costs for the Lottery. Additionally, the revenues from leasing out any new spaces on the Lottery property will be substantially higher than what is currently

received from lessees. Overall, by creating a multi-use site with leased spaces, the Lottery property will bring in more revenue than it costs to maintain its headquarters building, and this revenue is projected to pay for the new site construction in full.

DISCUSSION

A. Consultant Assistance

At its October 16, 2007 meeting the Commission approved hiring a consultant to develop the planning and design of a new headquarters facility and manage its construction (Item 9(c)). Since the October 2007 Commission meeting two contracts have been executed towards achievement of the work approved then. The first contract was executed in November 2007 with Richards Blvd. Partners, LLC (RBP), to:

- Develop a site plan for the entire Lottery headquarters property;
- Perform preliminary planning and design for a new Lottery headquarters; and
- Secure final environmental and entitlement approval for a new Lottery headquarters facility.

The first two elements of this contract are complete and the third is underway. The final environmental and entitlement approval is scheduled to be complete in the fall of 2008. The total amount for this contract is \$1,215,000.

A second contract was executed in February 2008 with Capital Program Management, Inc. (CPM), to provide project management services on an as-needed basis to support the development and construction of the proposed Lottery headquarters facility. This contract is scheduled to continue through completion of the Lottery headquarters project. The total amount for this contract is up to \$900,000.

B. Site Planning

The development of a site plan for the entire Lottery headquarters property by RBP focused on utilizing the entire site to its fullest revenue potential. This planning effort was undertaken with consideration for impacts to Lottery operations, and the Lottery's location in the Richards Boulevard Redevelopment Area, also known as the River District.

The conclusion of the site planning is a phased development of the entire site with the first phase being the construction of the new Lottery headquarters. The optimal location for the new Lottery headquarters was determined to be the northeast corner of the property at the site of the existing 700 North 10th Street (aka: Building D), fronting on both North 10th Street and the future extension of Vine Street. This

location was selected since it would minimize disruption to Lottery operations during construction, was consistent with the urban development plan for the River District, and provides a well-designed, integrated campus plan for the entire property.

Beyond the new Lottery headquarters the site planning goal was to provide for the maximum development potential for additional revenue. Different scenarios were considered including renovation of the buildings currently occupied by the Lottery (Building A/B/C) and then leasing them; however, financial analysis showed that was not the best alternative. The ideal site plan includes demolition of the existing Building A/B/C, and then construction of two additional office buildings and a parking structure. This alternative would result in approximately 330,000 square feet of leasable space and 1,315 parking spaces for use by lessees. This alternative also provides for the possibility of developing an 8,400 square foot retail building at the southwest corner of the property, although this was not considered in the financial analysis due to the uncertainty of when it might be constructed.

The RBP financial analysis considered the current costs to operate the existing Lottery buildings, the cost of building and maintaining a new Lottery headquarters, and then the financial implications of additional development on the Lottery site. Current expenses associated with the headquarters property are approximately \$4.1 million per year. This includes not only various utilities and maintenance costs, but also custodial, security and building management. Analysis showed that if a new Lottery headquarters were built and the existing Building A/B/C was then leased out, the net annual expenses including the cost of the new building would be approximately \$4.0 million. This would be a slight savings from the Lottery's current costs. Results of the analysis showed that the best performing alternative was the fully developed site plan that included a new Lottery headquarters, along with two additional office buildings and a parking structure to generate offsetting revenue. Upon completion of all of the proposed site improvements the net annual expenses would be approximately \$2.3 million, much less than is currently spent on the existing facilities.

It is important to note that the analysis was only from a financial perspective and did not consider the improved Lottery operational efficiencies that would also be experienced in a new facility.

C. Preliminary Design

Utilizing the existing property study and a team of Lottery employees, RBP gathered information and performed an analysis of the Lottery's needs and matched those to an appropriate building size and configuration. The conclusion of this work is that a building of approximately 148,000 square feet, configured in 6-stories would best meet the needs of the Lottery. In addition to workspace for the Lottery's budgeted and contracted staff, this building would also include room for two retail spaces (such

as a deli and coffee shop), exhibition spaces for Lottery history, a multipurpose pavilion, a Lottery Store, and an employee wellness center.

The preliminary project schedule is for the final design and construction contract to be awarded in August 2008 with construction to begin in mid-2009 and move-in occurring near the end of 2010. The preliminary estimated cost for the final design and construction contract for the new headquarters building is between \$55 and \$60 million.

D. Procurement Methodology

Given the size of the project and the options available for the procurement of final design and construction of the new headquarters facility, CPM was asked to evaluate the best value delivery method available to the Lottery. The four delivery methods that were suitable for consideration were Design-Bid-Build, Construction Management at Risk, Design-Build, and Design-Assist. These methods were reviewed relative to working relationships, responsibilities of parties, benefits, and risks.

Of the four delivery methods, Design-Build or Design-Assist were well suited for the Lottery since they would provide qualifications based selection of the building team, establish the total project costs early on, and would deliver the project in the shortest duration. Design-Build was determined to be the best choice for the Lottery since it is also better suited to limit the Lottery's overall risk and reduce cost overruns.