

COMMISSION AGENDA ITEM

Item 8(d) – Ratification of Amendment to Add Funds and Extend Term of Z Squared Construction Agreement for Completion of the Northern Distribution Center Remodel



Date: November 21, 2024

To: California State Lottery Commission

From: Harjinder K. Shergill Chima *HKC*
Director

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Subject: Item 8(d) – Ratification of Amendment to Add Funds and Extend Term of Z Squared Construction Agreement for Completion of the Northern Distribution Center Remodel

ISSUE

The California State Lottery (Lottery) seeks California State Lottery Commission (Commission) ratification of Amendment 02 to the Lottery's Agreement with Z Squared Construction (Z Squared), for construction services in connection with the Northern Distribution Center (NDC) Remodel Project (Project). Amendment 02 will extend the term one (1) year to November 14, 2025, and add funds in the amount of \$292,596 (inclusive of a 10% contingency), raising the maximum authorized expenditure amount from \$6,927,175 to \$7,219,771.

BACKGROUND

In 2022, the Lottery solicited an Invitation for Bid to provide construction services for completion of the Project. The Lottery executed an Agreement with Z Squared (the Contract) in the amount of \$5,770,910 for the term of November 15, 2022, to November 14, 2024, with options to extend the Agreement for two (2) one-year periods.

The Project expanded a portion of the supply warehouse to support additional Pick and Pack stations for sales growth. This Project also included installation of the following: a new roof, heating, ventilation, and air conditioning (HVAC) equipment to address health and safety issues, pallet racking to support storage of Lottery products, and upgrading the physical security system for the protection of Lottery assets and staff. The purpose of the Project was to modernize operations, secure assets, and support the health and safety of building occupants. Due to the critical sales and supply chain activities performed at the NDC, the building was required to remain fully operational during construction.

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The initial Project completion date was planned for November 30, 2023. Full mobilization of the construction team on site commenced in April 2023. In May 2023, the Project completion date was extended to January 31, 2024, to account for critical Change Order (CO) work, the need to keep the facility fully operational, and supply chain issues.

Contract Amendment 01, which was approved by the Commission on January 25, 2024, added funds required to support the completion of the NDC Remodel Project. The original contract amount did not include sufficient funds for the procurement and installation of physical security equipment, due to omissions in the initial project specifications and design. Change Orders were approved to account for this and other work that had not been anticipated, and additional unplanned costs were incurred due to project delays resulting from unforeseen supply chain issues. Based on the approved Change Orders and the Rough Order of Magnitude (ROM) estimate for the remaining project work (including a 10% contingency), an additional \$1,156,265 was added to the contract, increasing the total contract authority from \$5,770,910 to \$6,927,175.

DISCUSSION

The need for an additional Change Orders, in connection with the physical security system, was identified shortly after the January 25, 2024, Commission meeting. This Change Order covered electrical work necessary to successfully connect the new security cameras/sensors at the facility. The approved Change Order, which totaled \$119,230, used up the planned contingency funds added in Amendment 01.

The Lottery also incurred significant unanticipated costs due to an industry-wide supply chain issues and related scheduling delays with PG&E. Specifically, completion of the Project work was dependent upon the acquisition and installation of the Main Transfer Switch, a critical piece of equipment required to support the electrical load of the various equipment added by this Project. At the time of the January Commission meeting, it was anticipated that the Main Transfer Switch would be delivered in February; instead supply chain issues delayed delivery of this equipment to May 15, 2024. At that point, installation of the unit could not be performed until PG&E completed upgrades to our main service lines. PG&E would not schedule this work until the Lottery could confirm delivery of the Main Transfer Switch – going as far as to require a photo of the equipment onsite. PG&E's upgrade work was completed on August 24, 2024, at which point our Contractor was able to resume work on the remaining Project items. These included installation of the Main Transfer Switch, completion of the physical security Change Order work, and final completion of all electrical-related systems, including HVAC, conveyor, and networking. Altogether, this extended the Project completion date from May 3, 2024, to October 31, 2024.

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As a result of the delay, extended general conditions costs (i.e., operational costs to keep the contractor mobilized throughout Project completion) were incurred at a rate of \$1,902 per day for an additional six-month period. Also, continued rental of a temporary HVAC unit in the Pick and Pack area was required during that time, at a rate of \$8,000 per month.

Lottery staff determined in October of 2024 that an additional \$292,596 was needed to cover the extended general conditions costs, temporary HVAC unit rental costs, and costs associated with the additional security system Change Order, and to provide a 10% contingency amount for any unforeseen work that might be identified in the final stages of the Project.

The Lottery recently determined that a Contract extension is also required. On Monday, October 28, 2024, the Office of the State Fire Marshal, Fire and Life Safety Division - North (SFM) came to the facility to begin final inspections. No issues were anticipated, since none had been identified by the Project's Inspector of Record, who performed ongoing site visits throughout the Project, or by the SFM during its previous inspections in connection with the Project. During the October 28th inspection, the SFM identified a number of deficiencies that must be corrected for compliance with the California Fire Code. The most significant issues relate to the existing ceiling insulation in the old pick and pack area and the facility's fire suppression system. It is the Lottery's understanding that additional construction work will be required for the removal of the insulation, and the existing drop ceiling grid, panels, and lighting in this area. Adjustment or revisions to the facility's fire suppression system may also be required. The Lottery determined that it would not be possible to complete such corrections prior to the Contract expiration date of November 14, 2024.

Amendment 02 was executed in November of 2024, adding \$292,596 to the Contract, and exercising the first of the Lottery's two Contract options to extend the term by one year.¹ This amendment brought the total maximum agreement amount to \$7,219,771 and extended the Contract term through November 14, 2025.

Typically, Amendment 02 would require prior Commission approval based on the amount of funds being added and the extension of time. In this instance, the Director was authorized to execute the Amendment under Lottery Regulation 8.6.6.A, based on the need to extend the Contract term and add necessary funds prior to contract expiration on November 14, 2024. The Lottery is requesting Commission ratification of this Amendment.

¹ At that time, the Lottery could not reasonably estimate the cost of correcting the deficiencies identified by the SFM. As a result, Amendment 2 only included the previously projected amount needed for project completion. Once sufficient information is available, an amendment will be brought to increase the Contract funding, as needed, to cover the remaining construction work.

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RECOMMENDATION

The Lottery recommends that the Commission ratify Amendment 02 to the Lottery's Agreement with Z Squared, adding funds in the amount of \$292,596 and extending the term by one year. This Amendment increases the total Agreement amount to \$7,219,771 and extends the contract term through November 14, 2025.