



## M E M O R A N D U M

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**Date:** September 29, 2022

**To:** California State Lottery Commission

**From:** Alva V. Johnson, Director 

**Prepared By:** Tiffany Donohue, Deputy Director  
Operations Division

**Subject:** Item 8(b) – Construction Services Contract, Z Squared Construction

### **ISSUE**

The California State Lottery (Lottery) is requesting approval to enter into an Agreement with Z Squared Construction (Z Squared) for the Northern Distribution Center (NDC) remodel project. The Agreement amount is \$5,770,910 with a term date of October 10, 2022 through October 9, 2025.

### **BACKGROUND**

The Lottery purchased the NDC facility in 2007 and moved into the location in July 2008. The Lottery occupied 42,532 square feet (sq. ft.) of the building and a tenant occupied 16,190 sq. ft. of space known as the auxiliary warehouse. The tenant has since vacated, leaving the auxiliary warehouse space available for Lottery use.

In 2015, the roof began to leak, and continued to worsen year after year. In Fiscal Year (FY) 2018-19, a project was approved to replace the roof, expand racking into the vacant auxiliary warehouse area, and to bring the building to current building codes.

During FY 2020-21, the Lottery submitted plans to the State Fire Marshall (SFM) for review and approval. In May of 2021, the scope of the project was expanded to include four (4) additional Pick and Pack (PnP) stations and one (1) additional conveyor to support sales growth. Architectural drawings were modified to reflect this approved expansion in

scope and resubmitted to the SFM. On February 3, 2022, the Lottery received final approval and permitting of the project from the SFM.

## **DISCUSSION**

The scope of the NDC project includes upgrading the existing security system to a new network IP system and expanding the system into the auxiliary warehouse; installing racking for 950 pallet positions; expanding a portion of the supply warehouse and installing a new conveyor; building six (6) new PnP stations; and transferring four (4) PnP stations from the current location to the new PnP area. The current heating, ventilation, and air conditioning system (HVAC) units will be replaced, and new rigid insulation will be installed under a new roof membrane. New HVAC and curbs will be installed, as well as replacement of all skylights and fall protection cages. A new remote station fire alarm system will be installed, as well as internal roof access, truncated dome mats, and restriping a portion of the parking stalls.

The Lottery released an Invitation for Bid (IFB) on January 21, 2022 and conducted a mandatory site walk at the NDC on February 9, 2022. The Lottery received four (4) responsive and responsible bids and identified a successful bidder. Days prior to presenting the contract to the Lottery Commission for approval and award, the apparent successful bidder informed the Lottery they were unable to enter into an agreement and complete the project for the amount bid. This was due to unprecedented cost escalations in the construction industry. The Lottery withdrew the agenda item and decided it was in their best interests to rerelease the solicitation at a later time.

The Lottery released a second IFB on July 15, 2022 and conducted a mandatory site walk at the NDC on August 2, 2022. The Lottery received seven (7) responsive and responsible bids and determined that Z Squared offered the best value to the Lottery for the project, with a bid amount of \$5,107,000.

Construction industry trends have shown that supply chain constraints, rising energy costs, and the availability of labor, equipment, and materials may impact the overall project schedule and proposed costs. In 2021, construction costs escalated on average at the rate of 1% per month for annual inflation rate of 13%. The Lottery is requesting an additional \$663,910, which is 13% of Z Squared's bid, above the award amount to address any potential cost escalations caused by supply chain issues that may be encountered, for a total contract award of \$5,770,910. The requested term of the contract will be from October 10, 2022 to October 9, 2025.

**RECOMMENDATION**

Lottery staff recommends approving the Agreement with Z Squared for construction services for the NDC project for a total contract amount of \$5,770,910. The Agreement term will be October 10, 2022 through October 9, 2025.