

COMMISSION AGENDA ITEM

Item 9(a) - Ratification of Amendment to Add Funds to Z Squared Construction Agreement for the Northern Distribution Center Remodel



Date: September 25, 2025

To: California State Lottery Commission

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Director

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Subject: **Item 9(a) - Ratification of Amendment to Add Funds to Z Squared Construction Agreement for the Northern Distribution Center Remodel**

ISSUE

The California State Lottery (Lottery) requests ratification of Amendment 03 to Service Agreement 100373 (Agreement) with Z Squared Construction (Z Squared) to add funds for construction services in connection with the Northern Distribution Center (NDC) Remodel Project (Project), which will be used to address the requirements identified by the State Fire Marshal (SFM) during the October 2024 inspection.

BACKGROUND

The purpose of the NDC Project is to modernize operations, secure assets, and support the health and safety of building occupants. The Project expands a portion of the supply warehouse to provide space for additional Pick & Pack stations to support sales growth, provides for installation of a new roof, heating, ventilation, and air conditioning (HVAC) equipment to address health and safety issues, adds pallet racking to support storage of Lottery products, and upgrades the physical security system for the protection of Lottery assets and staff. The building was required to remain fully operational during construction due to the critical sales activities performed at the NDC.

The Lottery solicited an Invitation for Bid for a general contractor to provide construction services in accordance with the architecturally engineered and approved plans for the Project, drafted by the Lottery's Architect of Record (AOR) LPAS, Inc. (LPAS). The Lottery executed an Agreement with Z Squared 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. Full mobilization of the construction team commenced in April of 2023.

Due to omissions in the initial specifications and design for the Project, the original Contract amount did not include sufficient funds for the procurement and installation of physical security equipment, and additional time was needed for completion of that work. The project was also impacted by supply chain issues (described in further detail

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below) and water damage to the roof deck, which required replacement prior to installation of the new roof and HVAC system. The resulting delays led to increased costs for General Conditions (daily operational costs for keeping the Contractor mobilized on site through Project completion). Change Orders were developed to account for the additional work.

On January 25, 2024, the Commission approved Amendment 01 to the Contract. This amendment added \$1,156,265 in funds to support completion of the Project, increasing the total contract authority to \$6,927,175. This amount was based on a Rough Order of Magnitude (ROM) estimate for the remaining project work and included a 10% contingency. At the time, the estimated Project completion date was May 3, 2024. Shortly after Amendment 01 was approved, the need for an additional Change Order was identified. This Change Order, which covered additional electrical work necessary to connect the Lottery's new security cameras and sensors, totaled \$119,230 and used up the contingency amount added by Amendment 01.

The Lottery also incurred significant unanticipated costs due to an industry-wide supply chain issue 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; this was a critical piece of equipment required to support the additional electrical load from equipment added under this Project. At the time of the January Commission meeting the Lottery had already experienced delays in the delivery of this equipment (the supply chain issues noted above), but it was anticipated that the Main Transfer Switch would be delivered in February of 2024; instead, supply chain issues continued to delay the delivery of this equipment until May 15, 2024. At that time, 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 so far as to require a photo of the equipment onsite. PG&E's upgrade work was completed on August 24, 2024, at which point Z Squared 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.

As part of the Project closeout, the SFM performed an inspection on October 28, 2024 and identified multiple unexpected deficiencies. These issues included a need for additional interior and exterior exit lighting and signage, completion of a commodities report to ensure that proper fire suppression systems were in place, reinstallation of the drop ceiling, and installation of additional lighting in the old pick and pack area. None of these issues were previously identified by the Project's Inspector of Record or by the SFM during their prior visits to the site.

Since the Project could not be completed prior to Contract expiration on November 14, 2024, the Lottery executed Amendment 02 on November 12, 2024. This amendment extended the Contract term through November 14, 2025 and added \$292,596.00 to

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cover previously incurred costs and provide a 10% contingency for additional work. This brought the maximum agreement amount to \$7,219,771.99. At that time, the Lottery could not reasonably project the full extent and cost of the work that would be required to obtain SFM approval for the NDC. As such, the Lottery did not attempt to include those funds in amendment. Amendment 02 was ratified by the Commission at the November 21, 2024, Commission Meeting.

DISCUSSION

The Lottery's architectural firm, LPAS, Inc. has worked with the SFM and developed an architectural design plan to address the remaining safety issues. The SFM approved the plan, and Z Squared prepared a proposed Change Order to perform the work, which was bid out to multiple subcontractors. LPAS and Lottery staff reviewed the Change Order and confirmed that it was appropriate. The Lottery projects that this work will be completed prior to Contract expiration, on November 14, 2025.

Based on the Change Order, Lottery staff determined that an additional \$824,133 in funds was needed to ensure completion of the work under the Z Squared Contract. Due to the limited time remaining on the Z Squared Contract and the continuing costs that were accruing while the work was on standby, the Lottery further determined that it was necessary to amend the Contract prior to the September Commission meeting.

The Director executed Contract Amendment 03 on August 7, 2025, pursuant to Lottery Regulations section 8.6.6.A, which provides that if circumstances require work under a particular contract or contract amendment to commence prior to the next Commission meeting, the Director may authorize the execution of the amendment with notification to the Chair of the Commission. This regulation requires that Commission ratification be sought at the next opportunity.

RECOMMENDATION

The Lottery recommends the Commission ratify Amendment 03 to the Lottery's Agreement with Z Squared, adding funds in the amount of \$824,133. This Amendment increases the total Agreement expenditure amount from \$7,219,771 to \$8,043,904.