

Gualala Community Center Board of Directors
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Re: Project Update and Next Steps

Esteemed Members of the Gualala Community Center Board of Directors,

We would like to give you a project update since the latest round of pricing of the 100% Construction Document Drawing set, which was submitted for permitting and bidding in November 2024. The following letter will address several subject matters in sequence:

- (1) Project pricing timeline, and latest updated project cost
- (2) Analysis of the current situation
- (3) Proposal for next steps
- (4) Project timeline
- (5) Frequently asked questions:
 - Cost per square-foot
 - Prefab and modular construction
- (6) Summary

1. Project Pricing Timeline and Updated Project Cost

Due to a variety of factors, some of which are macro-economic in nature, and others internal to the project, the total cost of construction has increased since the last round of pricing. The following will break down the nature of this cost increase.

First, a summary of the pricing timeline during 2024:

In April 2024, general contractor (GC) Oliver & Company (O&C) was selected through a rigorous GC Request for Proposal (RFP) process. O&C's proposed budget during this RFP, based on the 100% Design Development Drawing Set, was **\$8.9-million**.

By June and July 2024, O&C and Figure had embarked on an intensive months-long Value Engineering (VE) process in an attempt to cut costs from the project. The target VE budget was **\$7.8-million**.

In November 2024, we submitted the 100% Construction Documents to O&C for a final hard bid pricing. This updated drawing set has all the final details and specifications required for construction and permit approvals.

Cost update in 2025:

In February 2025, we received the updated project budget from O&C, which was influenced by several factors:

- Cost Savings:
 - VE Achieved: \$480,000
 - Potential Additional VE Cost Savings: \$680,000
 - O&C Donation of GC Profit: \$93,000
- Cost Increases:
 - Newly Added Scope*: \$580,000
 - Escalation & Clarified Scope**: \$1,800,000

To further explain the cost increases: **New Scopes* included items were elected to be added by the Board since the initial pricing, or items that were not initially captured in the first round of pricing; big items include: skylight shades: \$150,000, key card access: \$58,000, additional site bollards w/ lighting: \$68,000, etc.

However, the most significant cost increase came from the ***Escalation & Clarified Scope* during re-bidding of the project at 100% Construction Documents. First, one of the macro-economic drivers of this has been the high inflationary environment of recent years. In the construction industry this is commonly termed as *Construction Escalation*, which includes increases in the cost of both material and labor on a per year basis. O&C anticipates that there has been roughly a 10% increase in material and labor cost across the board since March 2024, when they performed the initial pricing.

Second, the threat of tariffs for many imported materials (lumber, steel, etc.) has likely triggered pre-emptive price increases of materials within many of the subcontractor scopes.

Finally, the development of final architectural drawings and specifications has resulted in a series of clarifications to each subcontractor as to the requirements within their scope of work, leading to revised prices during the final hard bid that have seen increases in cost.

With all of the cost savings and cost increases in consideration cumulatively, unfortunately the new project budget has increased to a cost of approximately **\$9.2-million**.

2. Analysis of the Current Situation

We can imagine that this is very difficult news to hear. The initial project budget of \$7+ million was already hard to swallow by many in the small community of Gualala. We believe that this new increased project cost is simply a non-starter for all involved, so we must seek an alternative solution.

We believe a successful community center project must accomplish three basic things:

- 1. Provide a large gathering space for the Gualala community**
- 2. Rebuild this facility with expedience, without delay**
- 3. Control and reduce the project costs significantly**

There are factors outside of our control, such as inflation and tariffs, but what and how much we decide to build is within our control. The design vision that was presented to the public was full of wonderful aspirations, but perhaps some of those features were nice-to-haves that are not essential to the success of the project. Some of these might include: high-end AV and security system (\$460,000), large air conditioning HVAC system (\$500,000+), nearly an acre of site improvements - concrete paving (\$160,000), landscaping (\$185,000), etc.

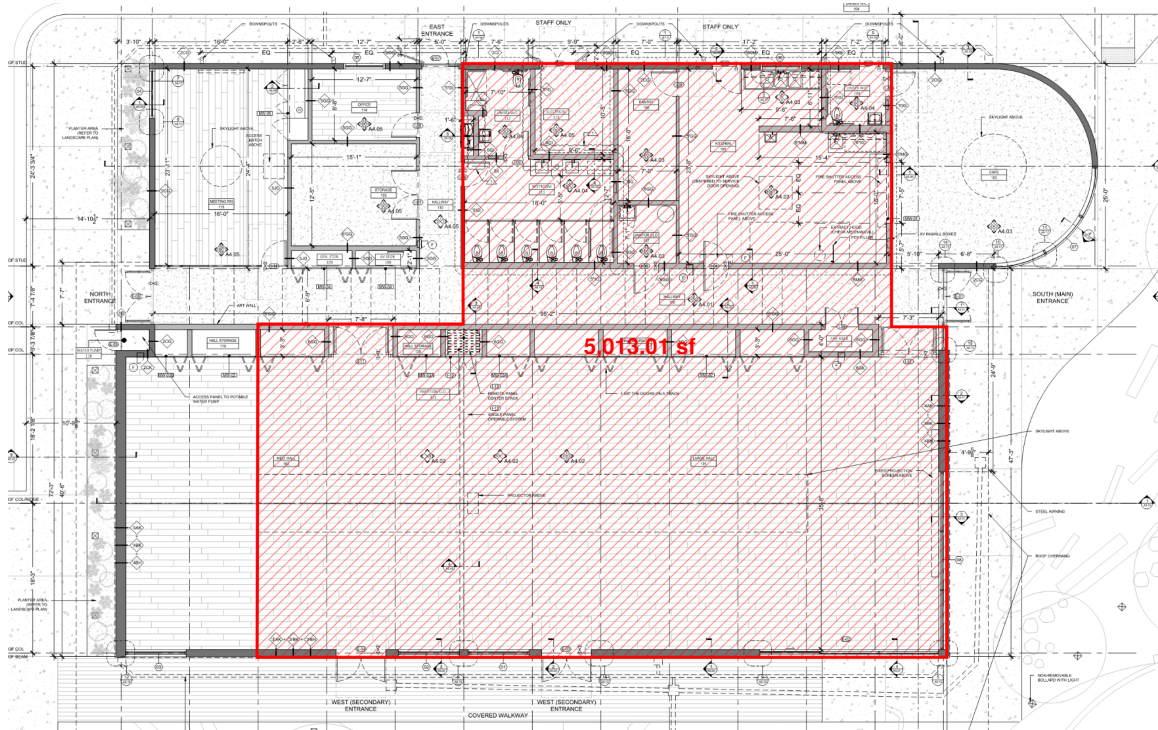
We believe that if we can collectively take a hard look at only the things that are necessary in this community facility, we can arrive at a project that honors the original spirit of the design shared with the public, and is achievable within a more palatable budget.

3. Proposal for Next Steps

Over the past week we have been engaged in a series of intense conversations with O&C to come up with a strategy moving forward. We would like to propose a revised project scope that reduces the overall budget by \$4-million, such that the overall construction budget of the community center is approximately **\$5.5-million**. We would like to achieve this goal with the following modifications to the design. This value engineering list is an initial one and open for further discussion with the Board:

- Reduce size of the proposed community center from 7,500 square-foot to 5,000 square-foot
 - Combined two halls into one hall only, size of single hall is slightly reduced
 - Remove cafe program, conference room, staff office, and storage room
 - Keep bathrooms (number of fixtures likely reduced due to lower occupancy)
 - Build kitchen with plumbing rough-ins to be ready to receive kitchen equipment. Actual appliances and fixtures will be sourced and installed by owner
 - Remove cabinetry and storage shelves
- Significantly reduce cost of building systems
 - Reduce windows and skylights
 - Reduce size of HVAC system
 - Remove most of AV and security system except basic requirements
 - Reduce electrical lighting, downsize electrical service
 - Remove emergency generator
- Defer majority of exterior improvements
 - Minimize exterior paving, except parking areas as required
 - Defer most landscaping, except immediately next to building

See below for an approximate diagram of the area to be kept (in red):



The intent is to create a community facility with the most essential functions: a large hall for gathering, and required bathrooms and a kitchen to support this space. We would keep the gabled silhouette and the quality of space inside the main hall. It is important that we preserve the integrity of design that the public supported and donated towards.

4. Revised Timeline

If acceptable, these changes to the project will require some amount of redesign and re-engineering. However, our strategy is to be able to reuse most of the details we've developed to keep revisions to a minimum. We will need additional time to revise drawings, and to resubmit to Mendocino County for permitting. We believe this may push out the start of construction until Fall of 2025.

There might be some of you who are wondering: *why not start the design over?* We believe from a timeline standpoint, this is prohibitive. At the start of this project, we received County approval for a fire rebuild exemption to the Coastal Permit. If this design is scrapped and restarted, the project risks needing to go through the Coastal Commission, which may add 18-24 months of approvals timeline.

The reality is that the longer we wait, the more the project is vulnerable to the uncertainty of escalation and cost increases. We believe that the above strategy can most expediently complete a much needed facility that is missing from the community.

5. Frequently Asked Questions

We would like to address some questions and concerns that some community members have about the project:

1. Q: Why is the cost per square-foot of the project so high? I know someone who can build for \$500-600 per square-foot?

A: The price per square-foot metric is often used as an informal short hand to get a sense of the overall cost of a project. It is often misused, or misinterpreted as something that can be freely applied to all scenarios. The following factors need to be considered when thinking about cost per sf:

- 1) Type of building
 - a) For instance, a single family home is a much simpler type of building than a commercial grade building designed to accommodate over 200 people in an assembly use. The mechanical, electrical, plumbing loads all greatly exceed that which is necessary for a private residence. Additionally, the engineering, fire and life safety, infrastructures and utilities required are a different magnitude of complexity all together. These requirements all contribute to a greater cost on a per square foot of floor area basis
- 2) Size of building (economy of scale)
 - a) O&C gave an example of economy of scale at play: a 3-story, 45,000sf senior living multi-family housing project cost \$500-600/sf to construct. This is similar to buying things in bulk or at wholesale. Generally speaking, the smaller the building, the less one is able to take advantage of an economy of scale
- 3) Total scope of project
 - a) The GCC project encompasses nearly an acre of exterior improvements, such as parking areas, properly constructed storm water run-off site work, paving and exterior surfaces for public use including the farmer's market, landscaping, and site utilities. None of these scopes increase the size of the building, yet increase the cost of the project and therefore, the cost per square foot.
- 4) When was the project built
 - a) Often a price per square foot is cited for a project built a number of years ago, failing to account for the construction escalation that occurs every year. The Northern California rate of escalation is approximately 1.5-2x of the National Consumer Pricing Index of 3-5% per annum. This means that even compared to a project built 5 years ago, the current cost of building has substantially increased.

In summary, it is important to factor in all of the above considerations before suggesting the project can be built for less. For the metric to be comparable, it would need to be as similar as possible in terms of type, size, scope of building, as well as accounting for the escalation that has occurred since construction. It is also important to remember that a project's cost is not just the building itself. The GCC project encompasses a greater masterplan that dovetails into the annex and greater community center campus.

2. Q: Why aren't we considering prefab or modular construction? It is much less expensive than conventionally framed buildings.

Over the past several decades, prefab is often touted as a cost saving and time saving solution for building construction. However, despite its supposed merits, why is it that we don't see prefab structures overtaking conventionally framed buildings? Builders, owners, and developers will seek the most economical way to build, after all. The reality is that building with prefabricated or modular construction components can yield cost savings in very specific scenarios, assuming all conditions are met:

- 1) Transportation Logistics

- a) This is a significant constraint when considering prefab in a remote area along the coast. The transportation from the factory where the parts are produced, to the building site, is a substantial cost. The max dimensional limit of a truck load - usually 12'W x 12'H x 40'L, means that the size and shape of the building, or building parts need to be considered carefully. To add to the limitations, HWY 1's famous hairpin turns create additional challenges on the road. If building components are oversized, a California Highway Patrol escort is required, adding another cost per truck load.

- 2) Labor Pool

- a) Another factor is how familiar to prefab is the local contractor pool? Assembling prefab components onsite requires a high level of coordination and planning. This skillset is often available for large contracting corporations, but more difficult to access for smaller general contractors. When met with an unfamiliar system of installation, GCs will often increase their labor prices to account for uncertainty or the additional time required to learn the system.

- 3) Flexibility

- a) On the design side, there is less flexibility to size and shape the building to one's specific needs with prefabrication. Prefab kits come with a number of differing options, but if any requirements fall outside of what is available off the shelf, then additional costs may be incurred in customizing the solution to fit the GCC's needs

At the start of the project, prefab was briefly considered by the design team. However the sense we received from several local contractors that ultimately it makes more sense to use conventional framing. The cost of the superstructure of the building is approximately 10-15% of the total building cost. If we were not constrained by the conditions described above, using prefab here could yield savings. The other aspects of the building however, such as foundation, roofing, mechanical, electrical, plumbing, AV/security, fire sprinkler systems, etc. would still all be conventional. We feel that while prefab is an alternative option, it is not a magic bullet that will bring down total cost by an order of magnitude.

6. Summary

In summary, since the initial pricing in 2024, the design team and selected contractor embarked on an extensive cost saving (VE) exercise. These savings however, were counteracted by cost escalation, potential tariffs, design details and additional scope requirements of the project, leading to an increased project cost, at \$9.2-million.

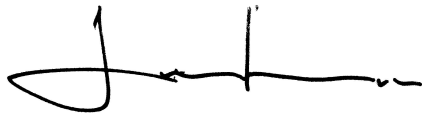
We feel that this new cost will not be palatable to the community, so the design team and contractor recommend a strategy of more aggressive cost cutting: the proposal is to reduce the overall building area from 7,500sf to 5,000sf. This reduction would remove auxiliary programs such as the cafe and conference room, while maintaining core programs such as a single combined large hall, bathrooms, and kitchen. Non-essential building systems and certain exterior scopes will be removed and/or deferred to a later phase.

This reduction would target a savings of approximately \$4-million, and bring the project budget to \$5.5-million.

Ultimately, we believe this proposal allows the project to maintain its core mission: to rebuild a community facility as quickly as possible, while also maintaining the design vision the public has come to support. Both Figure and Oliver & Company remain committed to the success of the project, and are ready to work together with the Board of Directors to realize this multi-year effort into a beautiful building for the Gualala community.

Please feel free to reach out with any follow up questions and any other comments you may have.

Thank you,
James

A handwritten signature in black ink, appearing to be the name 'James', written in a cursive style.