

Add Section 14673.11 to the Government Code to sell, exchange, lease, or any combination thereof the current headquarters building of the State Board of Equalization.

Source: Honorable Betty T. Yee

Background

The State Board of Equalization (BOE) headquarters building located at 450 N Street is owned by the State of California and has property management services provided by the Department of General Services (DGS). The BOE is the single tenant and pays monthly rent as identified annually by the DGS to occupy the building including any additional costs to upgrade, operate, or fund other special repairs to the building.

Prior to the discovery of mold in September 2007, the BOE was required to secure funding for the curtain wall project which allowed for approximately \$15 million to make necessary repairs to the exterior and interior windows and curtain wall. Just as this project was nearing completion the discovery of mold led to the closure of the top three floors at the BOE headquarters building and there have been additional defects discovered within this building, including latent construction defects and other infrastructure related failures. Several of the BOE major business programs have been relocated throughout the building including the majority of the Legal Department which was relocated to the Franchise Tax Board headquarters where additional space was available at that time. Over this last year, the BOE has had numerous water events requiring the relocation of employees and their office contents based on the severity of each individual water event. Most, if not all, of these water events were caused by mechanical failures of the mechanical equipment above the ceiling and/or failures of the mechanical operations on the 12th floor. In addition to these infrastructure failures, the BOE headquarters' staff has simply outgrown this building.

The BOE has been working with the DGS to right-size the headquarters building by identifying adequate office space for additional employees. According to the Space Optimization Study of 1997 by Dreyfuss and Blackford and two additional reviews by the DGS (2006 and 2008), the building is designed to house 2,200 employees. The BOE requires space for approximately 2,700 employees in its headquarters building. Initially, approximately 500 employees will be moved with an additional 140 employees to be moved once appropriate approvals for space is provided and appropriate site search and selection is completed. Additionally, the initial move of 50 employees and over 1 million taxpayer records was completed in the fall of 2008.

The long term goal is to provide adequate office space allowing for the most efficient business operation for the business programs at the BOE headquarters outside of the current location at 450 N Street building to a campus that can accommodate the business needs of BOE in a consolidated location in the greater Sacramento area.

This Proposal

This proposal will allow the current headquarters property to be sold or leased to allow for the remaining remediation in a more economic fashion, to generate funding to allow the repayment of the Pooled Money Investment Account (approximately \$88 million plus annual interest of approximately \$4 million) that is still owed on the building and to allow a new location for the BOE headquarters.

In addition, this proposal would authorize DGS to enter into a lease of up to five years at a location within the Sacramento area for temporarily situating those BOE employees who would be displaced while the 450 N Street property is being remediated along with those moved to address the current overcrowded conditions at the same property.

Finally, in order to provide a more comprehensive approach to the state's long term solution of providing adequate facilities, leveraging economies of scales, and instituting cost effective tax administration, this proposal includes requirements for two studies: (1) the potential co-housing of BOE staff on the Franchise Tax Board's campus; and (2) the identification of functions that could be performed jointly by California's three major tax agencies; the BOE, Franchise Tax Board, and Employment Development Division.

Section 14673.11 is added to the Government Code, to read:

14673.11. (a) The Legislature finds and declares all of the following:

(1) Located in the City of Sacramento, the state owns approximately 610,000 gross square feet of office space on city blocks bounded by "N" Street on the north, 5th Street on the east, "O" Street on the south, and 4th Street on the west, with improvements, currently used for state offices.

(2) For purposes of this section, the real property described in paragraph (1) shall be referred to as the "Sacramento Property."

(3) Relocating the headquarters of the State Board of Equalization in one location since the discovery of mold and other significant construction and infrastructure defects will greatly facilitate and improve the efficiency of the tax administrative operations of the state.

(4) The Sacramento Property may be sold, exchanged, leased, or any combination thereof, and the proceeds used to carry out the intent of the Legislature to streamline operations and to protect the health and safety of state employees.

(5) The disposition of the Sacramento Property authorized in this section does not constitute a sale or other disposition of surplus state property within the meaning of Section 9 of Article III of the California Constitution or subdivision (g) of Section 11011.

(b) The Director of General Services may sell, exchange, lease, or any combination thereof, all or a portion of the Sacramento Property. The director shall use the proceeds of any sale, exchange, or lease made pursuant to this subdivision to acquire the land and facilities described in subdivision (g) to finance a new headquarters for the Board.

(c) Any exchange, lease, or sale of properties carried out pursuant to this section shall be for no less than fair market value, as determined by an independent appraisal or pursuant to a competitive selection process. Compensation for the Sacramento Property may include land, or a combination of land, improvements, and money.

(d) (1) Any funds received from the sale, exchange, or lease of the Sacramento Property authorized by this section shall be held in trust and used only for the acquisition, lease, lease-purchase, lease with an option to purchase, or lease-purchase finance of the land and facilities identified in subdivision (g) and are hereby appropriated to the Department of General Services for expenditure for the purposes of this subdivision.

(2) For the purposes of this section, the terms "lease" or "leases" mean the selection and acquisition of a lease-purchase, lease-purchase finance, or lease with an option to purchase pursuant to this subdivision.

(e) The Department of General Services shall be reimbursed for any reasonable cost or expense incurred for the transactions described in this section from the proceeds of the sale, lease, or exchange of the Sacramento Property.

(f) For the purposes of this section, the Sacramento Property shall not be subject to the provisions of Section 11011.1 or Article 8 (commencing with Section 54220) of Chapter 5 of Part 1 of Division 2 of Title 5.

(g) (1) The director may enter into one or more agreements or leases for the purposes of providing usable office and related space to adequately house approximately 2700 employees in the City or County of Sacramento in order to relocate the headquarters of the State Board of Equalization. It is the intent of the Legislature that the state obtain an equity interest in any land or facility authorized by this subdivision.

(2) Notwithstanding Section 14669, the department shall advertise and award the lease or leases to the proposer offering to provide a building or buildings that meet the state's requirements and that the director determines are in the best interest of the state. The director may also lease all or part of the Sacramento Property for a period not to exceed 66 years.

(h) (1) The Department of General Services shall develop the terms and conditions of any agreements or lease, and provide them to the Department of Finance for review prior to soliciting bids. The Department of General Services shall obtain approval from the Department of Finance prior to execution of any agreement or lease.

(2) The Department of General Services shall notify the chairperson of the committee in each house that considers appropriations and the Chairperson of the Joint Legislative Budget Committee, or his or her designee, in writing of the director's intention to enter into a lease or an agreement, not sooner than a lesser time that the Chairperson of the Joint Legislative Budget Committee, or his or her designee, may in each instance determine. If any of the three committees fail to take an action

with respect to the submittal within 45 days after the submittal, this inaction shall be deemed to be approval for purposes of this section.

(i) In order to best facilitate any repairs, upgrades, or remediation to the Sacramento Property and address the current overcrowding until a more permanent solution to the Board of Equalization headquarters site search and selection is completed, the Department of General Services is authorized to enter into a lease of up to five years, with two five extensions, for temporary space within the Sacramento area for State Board of Equalization headquarters employees.

Sec. 2. In order to include within the planning of adequate office space and the most effective and efficient business operations of a future headquarters for the Board of Equalization, the Board of Equalization, the Franchise Tax Board, and the Employment Development Department shall jointly identify functions in the three agencies that can be consolidated or merged and report their findings to the Legislature on or before January 1, 2010.

Sec. 3. On or before April 1, 2010, the Department of General Services, in consultation with the Board of Equalization and the Franchise Tax Board, shall submit to the Legislature a study and cost analysis for the possible co-locating of the Board of Equalization at the Franchise Tax Board campus.

Sec. 4. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting the necessity are:

In order for the provisions of this act to be applicable as soon as possible in the current fiscal year and thereby facilitate the orderly administration of state government at the earliest possible time, it is necessary that this act take effect immediately.