

Memorandum

To : Gary Evans, Acting Chief
Board Proceedings Division

Date: March 14, 2007

From : Ramon J. Hirsig
Executive Director



Subject: **March 20, 2007 Administrative Agenda Budget Item**

Please include the following revised Finance Letter on the March 20, 2007 Board Agenda, under the Administrative Session "Other Administrative Matters" item:

Finance Letter No. 1- Board of Equalization—Individual Rate Building

This Finance Letter has been revised per the Department of Finance's initial direction. With the Board Members' approval, this Finance Letter will be forwarded to the Department of Finance for their consideration for inclusion in the FY 2007-08 May Revision.

If you have any questions regarding this request, please contact me at 916-327-4976, or Ms. Karen Johnson, Deputy Director of Administration at 916-445-4380. Thank you.

RJH:jg

cc: Ms. Karen Johnson
Mr. Steven Mercer
Ms. Meg Svoboda
Ms. Robbie Ramirez

STATE OF CALIFORNIA
 FINANCE LETTER - COVER SHEET
 FOR FISCAL YEAR 2007-08
 DF-46 (WORD Version)(REV 07/06)
 Please report dollars in thousands.

Department of Finance
 915 L Street
 Sacramento, CA 95814
 IMS Mail Code: A-15

FINANCE LETTER # 1	PRIORITY NO. 1	ORG. CODE 0860	DEPARTMENT Board of Equalization
PROGRAM ALL	ELEMENT ALL	COMPONENT	

TITLE OF PROPOSED CHANGE
 Board of Equalization – Individual Rate Building

SUMMARY OF PROPOSED CHANGES

This BCP is a Workload Request based on G.C. 13308.05

The BOE is submitting this Finance Letter in conjunction with the Department of General Services' Real Estate Services Division, Building and Property Management Branch's (BPM) proposal to set up and fund the Board of Equalization (BOE) building located at 450 N Street, Sacramento as an Individual Rate Building. These companion Finance Letters are being submitted based on the sale of the building to the Department of General Services (DGS). This proposal requests an augmentation for additional funds not currently budgeted for BOE to reimburse the BPM for all costs associated with the operation and maintenance of the building.

REQUIRES LEGISLATION <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT—PROVIDE LIST AND MARK IF APPLICABLE <input checked="" type="checkbox"/> ONE-TIME COST <input type="checkbox"/> FUTURE SAVINGS <input checked="" type="checkbox"/> FULL-YEAR COSTS <input type="checkbox"/> REVENUE <input type="checkbox"/> FACILITIES/CAPITAL COSTS
--	-------------------------------------	---

PREPARED BY <i>My Arabak</i>	DATE 3/14/07	REVIEWED BY <i>[Signature]</i>	DATE 3/14/07
DEPARTMENT DIRECTOR <i>Steven M. [Signature]</i>	DATE 3/14/07	AGENCY SECRETARY <i>[Signature]</i>	DATE 3/14/07

DOES THIS BCP CONTAIN INFORMATION TECHNOLOGY (IT) COMPONENTS? YES OR NO
 IF YES, DEPARTMENT CHIEF INFORMATION OFFICER SIGNATURE _____ DATE _____

FOR IT REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE DEPARTMENT OF FINANCE.

DATE _____ PROJECT # _____ FSR OR SPR

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL?

YES NO ATTACH COMMENTS OF AFFECTED DEPARTMENT, SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

DEPARTMENT OF FINANCE ANALYST USE
 (ADDITIONAL REVIEW)

CAPITAL OUTLAY OTROS FSCU OSAE CALSTARS

DATE SUBMITTED TO THE LEGISLATURE: _____ PPBA: _____

TITLE OF BCP: Board of Equalization – Individual Rate Building

A. NATURE OF REQUEST

The BOE, in conjunction with the Building and Property Management Branch (BPM) of the DGS, requests a budget augmentation to its Operating Expense of \$524,000 in FY 2007-08 and ongoing to set up and fund the Board of Equalization (BOE) building located at 450 N Street, Sacramento, to an Individual Rate Building. This request is based on the sale of the building to the Department of General Services which includes the maintenance/operations costs, and the set up of the special repairs/tenant improvement reserve account to fund future repairs to the building.

B. BACKGROUND/HISTORY

The Board of Equalization building located at 450 N Street was built in 1992 and occupied in 1993 for the Board of Equalization. This is a 24-story office building with approximately 616,730 gross square feet. The building has a child care center and an outdoor play area that totals approximately 6,703 square feet. Additionally, this building has a parking garage consisting of 690 parking spaces.

Legislation required to implement the Budget Act of 2006 included AB 1806. This bill enabled the Director of the Department of General Services to exercise the option to purchase this building on an existing lease-purchase agreement. As noted in this legislation, the State Public Works Board will issue bonds to finance the acquisition of the building. Exercising the purchase option will provide long-term ownership of the asset to the State, permanently securing the building for BOE's long-term headquarters use. During the 2006 Fall Adjustments, the Department of Finance augmented the DGS 2007/08 Lease Revenue Budget by \$6,435,000 to fund anticipated debt service related costs in the 2007/08 fiscal year.

In accordance with Government Code 14685 and State Administrative Manual Section 1300, BPM will provide full operations and maintenance for this facility. BPM shall operate and maintain the facility ensuring the safety and security of its tenants, perform proper maintenance on the building systems and components in compliance with suggested manufacturer recommendations, original design and compliance with all applicable codes and regulatory requirements.

BPM currently provides custodial and engineering services for the building and recovers the costs through direct bill to the BOE on a time/materials basis. With the sale of the building to DGS, BPM will assume full responsibility of the building including debt service (included in 2007/08 Governor's Budget), recurring maintenance, utilities and special repairs.

The BPM of the DGS will be submitting a concurrent Finance Letter for this transition of funding. BOE is requesting additional funds not currently budgeted to reimburse the BPM for all costs associated with the operation and maintenance of the building.

C. STATE LEVEL CONSIDERATIONS

This request is consistent with the state's policy on operating state office buildings.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

None.

E. JUSTIFICATION

The BOE requests a permanent budget augmentation to its Operating Expense of \$524,000 in FY 2007-08 and ongoing. These costs are based on the recurring maintenance and special repairs reserve account amounts determined by the BPM. The justification for these various components is described below.

RECURRING MAINTENANCE AND UTILITIES:

Recurring maintenance

BPM is requesting additional funds in recurring maintenance to adequately manage the operations of the building. The additional costs to recurring maintenance are in the following areas: elevator contract maintenance, contract window cleaning, permits, fees and licenses, uniform costs for new staff, and relamping supplies. Attachment A is a listing of recurring maintenance items that are typical in state buildings, the current allotment and the proposed allotment for 2007/08 fiscal year. BPM is requesting an additional \$163,000 in recurring maintenance costs.

Utilities

BPM is currently not funded nor is paying for utilities at this facility, with the exception of waste removal (\$18,000 per year). All electricity, natural gas, sewage, and water are paid by BOE. Upon the sale of this building, DGS will assume responsibility for all costs for utilities. In reviewing BOE costs for utilities, BPM is requesting a total of \$853,000. This amount will be offset in the BOE's utilities line item. A breakdown of the costs is as follows:

EXPENSE ITEM	COST
Electricity	\$757,000
Natural Gas	62,000
Sewage	19,000
Water	15,000
TOTAL	\$853,000*

Special Repairs Reserve Account

Upon the sale of this building to DGS, the building will be established as an Individual Rate building, providing for a six cent reserve account for special repairs/tenant improvements to be set up. This means that each month DGS will charge six cents per square foot to be set aside in this reserve account for special repairs. Based on rentable square footage of this building (501,060), the six cent reserve account will be \$361,000 per year.

In summary, the BOE is requesting total expenditure authority estimated at \$524,000:

EXPENSE ITEM	COST
Recurring Maintenance	\$163,000
Special Repair/TI Reserve Account	361,000
TOTAL FY 2007/08 BOE AUGMENTATION	\$524,000

* THE UTILITIES COST OF \$853,000 WILL BE OFFSET IN THE BOE UTILITIES LINE ITEM.

F. OUTCOMES AND ACCOUNTABILITY

BPM's core competency is managing and operating facilities and as such has all standard policies, procedures and programmatic controls in place to ensure that the State's assets and the health and safety of the occupants are protected. BPM has a preventive maintenance program in place that ensures equipment and various building systems are inspected and evaluated to make certain proper operating procedures and system integration is occurring. The management of the operation and maintenance of state facilities are consistent with the Building Owners and Managers Association (BOMA) standards.

The costs associated with the debt service and reserve account for Special Repairs will be implemented and effective with the 2007/08 Fiscal Year. BPM currently provides services at this facility so the current BPM operational policies and procedures in place for facility maintenance and management will be in effect.

G. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

1. Approve this budget augmentation of \$524,000 in FY 2007-08 and ongoing to provide BOE with additional funds not currently budgeted to reimburse the BPM for all costs associated with the operation and maintenance of the building.
2. Contract out all staff services to the private sector. Under cost savings based contracting, the State must show a substantial savings in order to privatize. While there is cost savings in the area of custodial care for the state, contracting out for engineering and trades would substantially increase the state's cost for maintaining the property.

H. TIMETABLE

This request is to be effective July 1, 2007.

I. RECOMMENDATION

Alternative 1 - Approve this budget augmentation of \$524,000 in FY 2007-08 and ongoing to provide BOE with additional funds not currently budgeted to reimburse the BPM for all costs associated with the operation and maintenance of the building.

Attachment A
Recurring Maintenance
Board of Equalization Building

<i>Recurring Maintenance</i>	Current	Proposed	
BPM Carpentry Supplies	\$ 750	\$ 775	
BPM Chemical for HVAC Systems	\$ 13,000	\$ 13,375	
BPM Cleaning Supplies	\$ 30,000	\$ 31,000	
BPM Contract Bldg Maintenance	\$ 97,950	\$ 100,750	
BPM Contract Electrical	\$ 2,000	\$ 2,050	
BPM Contract Elevator	\$ 4,000	\$ 113,538	Cost based on Otis elevator contract for 07/08
BPM Contract Pest Abatement	\$ 1,700	\$ 1,750	
BPM Contract Window Cleaning	\$ 2,500	\$ 25,000	Incorrectly budgeted
BPM Electrical Supplies	\$ 17,000	\$ 17,500	
BPM Elevator Supplies	\$ 200	\$ 225	
BPM Equipment Rental	\$ 1,000	\$ 1,050	
BPM Fire and Life Safety	\$ 30,000	\$ 30,900	
BPM General Maint. Supplies	\$ 15,000	\$ 15,500	
BPM Green Cleaning Supplies	\$ 1,100	\$ 1,150	
BPM Green Restroom Supplies	\$ -	\$ -	
BPM Grounds Supplies	\$ 250	\$ 275	
BPM HVAC Control Sys Supplies	\$ 250	\$ 275	
BPM HVAC Supplies	\$ 9,000	\$ 9,250	
BPM Intercomm Supplies	\$ 1,000	\$ 1,050	
BPM Laundry Services	\$ 8,000	\$ 8,240	Uniform for new staff
BPM LEED-EB fees	\$ -	\$ -	
BPM Locksmith Supplies	\$ 300	\$ 325	
BPM Permits, Fees and Licenses	\$ 2,500	\$ 20,000	Inclusive of boiler, generator, elevator, air compressor and fire permits
BPM Plumbing Supplies	\$ 4,500	\$ 4,650	
BPM Relamping Supplies	\$ 10,000	\$ 15,000	Includes budget for disposal of used lamps and group relamping projects
BPM Restroom Supplies	\$ 50,000	\$ 51,500	
<i>Recurring Maintenance</i>	\$ 302,000	\$ 465,128	
<i>Difference</i>		(\$163,128)	

STATE OF CALIFORNIA
 BUDGET CHANGE PROPOSAL--FISCAL DETAIL
 STATE OPERATIONS
 FISCAL YEAR 2007-08
 (Dollars in Thousands)

Title of Proposed Change: Board of Equalization - Individual Rate Building

Program/Element/Component: All

	PERSONNEL YEARS			CY	BY	BY + 1
	CY	BY	BY + 1			
TOTAL SALARIES AND WAGES						
Salary Savings						
NET TOTAL SALARIES AND WAGES						
Staff Benefits						
NET TOTAL SALARIES AND WAGES						
Distributed Administration _{a/}						
TOTAL PERSONAL SERVICES						
OPERATING EXPENSE AND EQUIPMENT						
General Expense						
Distributed Administration						
Printing						
Communications						
Postage						
Travel--In-State						
Travel--Out-of -State						
Training						
Facilities Operations					524	524
Consulting & Professional Services: Interdepartmental						
Consulting & Professional Services: External						
Stephen P. Teale Data Center						
Data Processing						
Equipment						
Other Items of Expense: (Specify Below)						

_{a/} Represents Distributed Administration costs resulting from this BCP. The Distributed Administration costs for existing BOE programs will reflect a corresponding decrease which will be addressed in the Planning Estimate process.

	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
TOTAL OPERATING EXPENSE AND EQUIPMENT		\$524	\$524
TOTAL EXPENDITURES (State Operations)		\$524	\$524

Source of Funds

General Fund	(0001)		\$300	\$300
Special Funds:				
Breast Cancer Fund	(0004)		1	1
State Emergency Telephone	(0022)		1	1
Motor Vehicle Fuel Account	(0061)		26	26
Occupational Lead Prevention Fund	(0070)		1	1
Childhood Lead Poisoning Prev. Fund	(0080)		1	1
Cig. and Tobacco Prod. Surtax Fund	(0230)		10	10
Oil Spill Prevention and Admin. Fund	(0320)		1	1
Integrated Waste Management	(0387)		1	1
Underground Storage Tank Fund	(0439)		3	3
Energy Resources Programs Account	(0465)		1	1
CA. Children and Families First Trust Fund	(0623)		17	17
Federal Trust Fund	(0890)			
Timber Tax Fund	(0965)		3	3
Gas Consumption Surcharge Fund	(3015)		1	1
Water Rights Fund	(3058)		1	1
Elec. Waste Recovery and Recycling Acct.	(3065)		7	7
Cig. and Tobacco Prod. Compliance Fund	(3067)			
Other Funds				
Reimbursements	(0995)		\$149	\$149
Net Total Augmentation (Source of Funds)			\$524	\$524