

Memorandum

To : Ramon J. Hirsig
Executive Director

Date : September 23, 2009

From : 
Liz Houser, Deputy Director
Administration Department

Subject : **October 2009 Sacramento Board Meeting Agenda**

The Administration Department requests the following item(s) be placed on the Board's October 6, 2009 Sacramento meeting calendar under "P. Other Administrative Matters".

P. Other Administrative Matters

P3. Deputy Director's Report

c. Administration Ms. Liz Houser

1. **Facilities Update** - This item provides information and may require Board action or direction.
 - Headquarters Facilities – An update on the Headquarter (HQ) Remediation Project including the activated swing space moves within the building
 - Update on the Stantec Infrastructure Study – A Department of General Services (DGS) representative will present findings from the Stantec Infrastructure Study and the planned course of action
 - Update on the Site Selection - A DGS representative will be asking for Board approval to proceed with the finalization of the lease for the selected site for the International Fuel Tax Agreement (IFTA)

2. **2009/10 Budget Update, Furlough Plan and Layoffs** – Information will be provided to the Board regarding the Governor's 2009/10 Budget, Governor's Executive Order S-16-08 State Employee Furlough, and layoffs. Possible Board action or direction may be requested regarding the Governor's Budget and the Governor's Executive Order.

3. **2010/11 Budget Change Proposal (BCP) Update** – A draft BCP will be presented for possible Board action or direction. Department of General Services submitted a BCP to request a budget augmentation to correct the Stantec Infrastructure Study priority one building deficiencies at the 450 N Street Building. BOE will present a corresponding BCP to address the potential of a rent increase.++

LH:lk

Attachment

cc: Honorable Betty T. Yee, Chairwoman
Honorable Bill Leonard
Honorable Michelle Steel
Honorable Jerome E. Horton
Honorable John Chiang

I approve:



Ramon J. Hirsig,
Executive Director

STATE BOARD OF EQUALIZATION
FISCAL YEAR 2010-11
PROPOSAL No. XX

TITLE OF PROPOSED CHANGE:

450 N Street Building Deficiencies (Companion to DGS BCP)

SUMMARY OF PROPOSED CHANGES:

The Board of Equalization (BOE) is requesting a baseline budget augmentation of \$2,480,000 (\$1,303,000 General Fund, \$517,000 Special Funds, and \$660,000 Reimbursements) to cover a proposed Department of General Services (DGS) rental rate increase. DGS has submitted a Budget Change Proposal (BCP) titled "Special Repair funding for the Capitol Square building at 450 N Street, Sacramento" that requests reimbursement from BOE of \$2,480,000 in FY 2010-11 to correct "priority one" building deficiencies. These deficiencies were identified as *Priority one* in a May 2009 report by Stantec Architecture, Inc. titled "*BOE Building Infrastructure Study*," which was commissioned by DGS.

BOE neither supports nor approves DGS's piecemeal approach to resolving the myriad problems facing the building. As an alternative, the five-member Board is sponsoring AB 151, which takes a more direct and comprehensive approach to resolving the building issues. Pending adoption of this legislation or until BOE is otherwise allowed to vacate the building, however, BOE realistically has no other option but to continue to request annual, incremental funding increases such as this one.

STATE BOARD OF EQUALIZATION

Fiscal Year 2010-11

450 N Street Building Deficiencies (Companion to DGS BCP)

A. Nature of Request

The Board of Equalization (BOE) is requesting a baseline budget augmentation of \$2,480,000 (\$1,303,000 General Fund, \$517,000 Special Funds, and \$660,000 Reimbursements) to cover a proposed Department of General Services (DGS) rental rate increase. DGS has submitted a Budget Change Proposal (BCP) titled "Special Repair funding for the Capitol Square building at 450 N Street, Sacramento" that requests reimbursement from BOE of \$2,480,000 in FY 2010-11 to correct "priority one" building deficiencies. These deficiencies were identified as *Priority one* in a May 2009 report by Stantec Architecture, Inc. titled "*BOE Building Infrastructure Study*," which was commissioned by DGS.

As stated above, BOE does not support the piecemeal approach DGS is using to resolve the myriad problems facing the BOE's headquarters building. In lieu of such a piecemeal approach, the five-member Board is sponsoring Assembly Bill (AB) 151, which takes a more comprehensive approach to resolving and funding the building issues. However, pending adoption of this legislation, when the BOE can move out of the building, BOE has no other acceptable option but to continue to request funding for annual, incremental increases.

B. Background/History

The BOE Headquarters building located at 450 N Street is owned by the State of California and, as such, is managed by DGS. The BOE is the single tenant and pays rent to DGS for occupancy of the building, which is inclusive of all costs to operate and provide maintenance services for the building. BOE, however, already has outgrown the building and, thus, is seeking office space for both 255 temporarily relocated employees and an additional 427 employees. BOE estimates that approximately \$65 million will be spent on this project to address floor-by-floor remediation and related repairs, curtain wall project repairs, and Stantec Infrastructure repairs. DGS continues to develop projected costs for required elevator modernization.

In May 2009, Stantec Architecture issued its "*BOE Building Infrastructure Study*", commissioned by DGS. In the report, "Stantec recommends corrections to the deficiencies that were observed during the course of the infrastructure study for a total estimated hard construction cost of \$10.6 million." (As of September 23, 2009, DGS re-estimated hard construction costs at \$13.7 million and total project costs at \$18.2 million.) "These corrections have been prioritized by the criteria provided by DGS:

- Priority 1 - Items to be completed immediately to meet fire/life safety regulations.
- Priority 2 - Items that are fairly urgent but can be performed in the next 2 -5 years.
- Priority 3 - Wish list items or deferred maintenance items."

Not included in the costs prioritized in the study are the costs of the required modernization of the building elevators or DGS' project administration and oversight costs. The Stantec report also points out that the curtain wall system will require continuing or periodic maintenance to prevent future leaks, in gaskets, seals, etc., during the seasonal rainy season or failure that could result in falling windows. This maintenance must be performed during the next two to three years. The original life expectancy of these gaskets, seals, etc., was identified by Stantec as eight years.

The proposed DGS BCP includes \$2.48 million in construction costs and DGS soft costs to address just the priority one repairs. Excluding DGS soft costs to oversee design and construction, the priority two and three repairs are estimated at \$2.2 million and \$6.5 million, respectively, plus escalation and contingency costs.

In addition to construction defects and remediation issues, BOE has long struggled with capacity issues in the building. According to the Space Optimization Study of 1997 by Dreyfuss and Blackford and two additional reviews by the DGS (2006 and 2008), the 450 N Street building was designed to house a maximum of 2,200 employees. While 255 BOE employees were originally relocated due to remediation issues on their respective floors at BOE, the required relocation also was necessitated by the lack of available alternative office space on other floors at BOE's headquarters building. Overall, in an effort to adequately address the lack of available office space at BOE headquarters, the BOE (1) has permanently relocated 49 employees and over one million taxpayer records to a location in West Sacramento; and (2) temporarily relocated approximately 206 Legal Department employees to the Franchise Tax Board's headquarters. Once an appropriate site is identified and secured, the BOE plans to move the 206 relocated Legal Department employees, and approximately 427 other employees, to permanent alternative office space elsewhere in the Sacramento area.

At present, the Headquarters building is financed through a short-term loan from the Pooled Money Investment Account (PMIA). The balance of the loan was approximately \$88 million as of December 2008. Annual interest of approximately \$3 to 4 million accrues on the loan each year, but there are no plans to make any principal payments during the interim financing period. This will result in significant annual increases in the loan balance. While the state originally intended to sell bonds to amortize the loan, it has been unable to do so during the past two years due to the on-going building repair/construction work in the building.

As an alternative to DGS's approach, BOE has proposed legislation, AB 151, which would authorize DGS to investigate and begin discussions with interested parties on the terms of a sale, exchange, or lease (or any combination thereof) of all or a portion of BOE's present headquarters building. This measure would further authorize DGS to investigate and negotiate the use of the anticipated net sale proceeds to acquire an alternative property to serve as new BOE headquarters. This measure would also state the intent of the Legislature, in the 2010-11 Budget Act, to transfer operating funds from the BOE to DGS to pay for DGS's actual costs for actions taken pursuant to this measure.

As previously stated, BOE does not support the piecemeal approach that DGS is taking to address the Headquarters building problems and lack of adequate capacity. BOE's long-term goals are to provide safe, adequate, and affordable office space for its employees and operations. The BOE believes that the best way to accomplish these goals is to move its operations from the current headquarters building to a new, consolidated location elsewhere in the greater Sacramento area.

Nevertheless, due to the difference in opinion between BOE and DGS on the correct approach to addressing the BOE building's issues, BOE recommends that the state seek an independent second expert opinion on the best way to address the headquarters building issues. BOE does not recommend that DGS be assigned this task because DGS is not adequately staffed with the required specialized personnel necessary to offer an informed expert opinion on the commercial market or redevelopment opportunities available for this site or restorative and remediation construction work that will be required by a potential buyer.

In obtaining this independent expert opinion, BOE recommends that consideration be given to determining the most appropriate and cost-effective approach to addressing the headquarters building remediation and capacity issues. Although BOE agrees that it is imperative to fix priority one deficiencies as soon as possible, under the DGS approach, there will be additional rental rate increases in subsequent years to address both the priority two and three issues identified in the Stantec report, as well as potentially more moves of BOE employees to accommodate the next round of repairs.

C. State Level Considerations

BOE is charged by both the State Constitution and statutes to: oversee the property tax assessment practices of 58 county assessors; assess and allocate the property values of railroads and specified utilities; administer the state's sales and use tax, fuel, alcohol, and tobacco taxes; and collect fees to fund numerous specific state programs. Successful administration of these tax and fee programs has resulted in the collection of approximately 32 percent of the state's annual revenue. Any continuing disruption of staff working conditions arising from remediation, repairs, and lack-of-capacity headquarters building issues will materially impact the BOE staff's ability to carry out the Board's mission.

D. Justification/Analysis of All Feasible Alternatives

DGS has proposed to fund only priority one deficiencies through the present proposed rent increase to BOE of approximately \$0.45 per square foot. If the DGS proposal is approved, BOE will need a baseline budget augmentation of approximately \$2,480,000 to offset this rent increase for the 450 N Street building.

BOE, on the other hand, is sponsoring AB 151, which would authorize DGS to investigate and begin discussions with interested parties on the terms of a sale, exchange, lease (or any combination thereof) of all or a portion of the 450 N Street headquarters building.

Although BOE's preference is to move forward with the cost-effective and comprehensive approach reflected in AB 151, BOE will in any event need a baseline budget augmentation in order to fund the priority one work without incurring a budget deficiency.

Alternative 1 - Encourage the state to continue to pursue options introduced in AB 151 that would authorize DGS to investigate and begin discussions with interested parties on the terms of a sale, exchange, lease, or any combination thereof, of the current state-owned headquarters building of the BOE, located at 450 N Street, Sacramento. BOE will also require a baseline augmentation of \$2.48 million to offset

the rental rate increase if the DGS BCP is approved for “priority one” structural deficiencies at 450 N Street building to proceed.

Pros:

- Provides DGS with the opportunity of either repairing the 450 N Street building while it is unoccupied or exploring the prospective sale of the building, thereby limiting future state expenses relating to building issues.
- Provides a new work environment for BOE employees, which likely will minimize potential new employee complaints.
- Better ensures that the BOE may continue performing its core revenue-generating mission without any further construction-related work interruptions.
- Minimizes disruptions to BOE staff and business functions.
- Provides an enhanced work environment for conducting state business for both the public and BOE employees.
- Undertakes necessary building infrastructure improvements to address priority one issues.
- Prevents BOE from facing a budget deficiency.
- Upgrades and preserves the building’s integrity and useful life, and maximizes its longevity, by immediately addressing the priority one deficiencies using high quality materials, methods and technologies.
- Ensures business continuity, enhances mission-critical operations, and improves productivity.

Cons:

- Legislation is still pending to move forward.
- Requires a budget augmentation.

Alternative 2 - Approve a baseline budget augmentation of \$2,480,000 to offset the rental rate increase proposed by DGS so “priority one” structural deficiencies at 450 N Street building can proceed.

Pros:

- Provides an enhanced work environment for conducting state business for both the public and BOE employees.
- Undertakes necessary building infrastructure improvements to address priority one issues.
- Prevents BOE from facing a budget deficiency.
- Upgrades and preserves the building’s integrity and useful life, and maximizes its longevity, by immediately addressing the priority one deficiencies using high quality materials, methods and technologies.
- Ensures business continuity, enhances mission-critical operations, and improves productivity.

Cons:

- Requires a baseline-budget augmentation.
- In the long term, taken alone, does not provide a cost-effective approach.
- Requires future augmentations to correct the priority two and three deficiencies identified in the Stantec Report.
- Disrupts staff and interrupts core business functions and productivity during the construction repair period.

E. Facility/Capital Outlay Consideration

This proposal does not in and of itself request positions; therefore, there will not be an additional impact on existing facilities.

F. Outcomes and Accountability

DGS has standard policies, procedures, and programmatic controls in place to ensure both the protection of the state's assets, such as state buildings, and the safety of the occupants of state-owned buildings. For state buildings, DGS has a preventive maintenance program in place that provides for the inspection and evaluation of building equipment and fixtures that minimizes work interruptions to tenants and their employees.

G. Timetable

July 2010 – June 2011 & Ongoing
<ul style="list-style-type: none">• Augment BOE's baseline budget to reflect the proposed rental rate increase.• Initiate repairs to address Stantec priority one deficiencies.

H. Recommendation:

Alternative 1 is recommended. As a first priority, pursue the options outlined in AB 151. Accordingly, DGS should begin to investigate the possibility of a sale, exchange, or lease (or any combination thereof) of the current state-owned BOE headquarters, located at 450 N Street, Sacramento.

BOE's preference is to move forward with proposed legislation. However, if the DGS 2010-11 BCP is approved, BOE also will require a baseline budget augmentation of \$2,480,000 to cover the DGS rental increase without incurring a budget deficiency.

I. Fiscal Detail

See attached "Fiscal Detail" schedules.

BCP No.
 DATE: October 6, 2009

STATE OF CALIFORNIA
 BUDGET CHANGE PROPOSAL--FISCAL DETAIL
 STATE OPERATIONS
 FISCAL YEAR 2010-11
 (Dollars in Thousands)

Title of Proposed Change: 450 N STREET BUILDING DEFICIENCIES (COMPANION TO DGS BCP)

Program/Element/Component: All Programs

	PERSONNEL YEARS					
	CY			BY		
	2009-10	2010-11	2011-12	2009-10	2010-11	2011-12
TOTAL SALARIES AND WAGES						
Salary Savings						
NET TOTAL SALARIES AND WAGES						
Staff Benefits						
Distributed Administration						
TOTAL PERSONAL SERVICES						
OPERATING EXPENSE AND EQUIPMENT						
General Expense						
Distributed Administration						
Printing						
Communications						
Postage						
Travel--In-State						
Travel--Out-of -State						
Training						
Facilities Operations					2,480	2,480
Consulting & Professional Services: Interdepartmental						
Consulting & Professional Services: External						
Department of Technology Services						
Data Processing						
Equipment						
Other Items of Expense: (Specify Below)						

		<u>BCP No.</u>	
	<u>CY</u>	<u>BY</u>	
	<u>2009-10</u>	<u>2010-11</u>	
		<u>BY + 1</u>	
		<u>2011-12</u>	
TOTAL OPERATING EXPENSE AND EQUIPMENT		\$2,480	\$2,480
TOTAL EXPENDITURES (State Operations)		\$2,480	\$2,480
 <u>Source of Funds</u>			
General Fund	(0001)	\$1,303	\$1,303
Special Funds:			
Breast Cancer Fund	(0004)	\$4	\$4
State Emergency Telephone	(0022)	\$7	\$7
Motor Vehicle Fuel Account	(0061)	\$203	\$203
Occupational Lead Prevention Fund	(0070)	\$7	\$7
Childhood Lead Poisoning Prev. Fund	(0080)	\$4	\$4
Cig. and Tobacco Prod. Surtax Fund	(0230)	\$54	\$54
Oil Spill Prevention and Admin. Fund	(0320)	\$2	\$2
Integrated Waste Management	(0387)	\$8	\$8
Underground Storage Tank Fund	(0439)	\$32	\$32
Energy Resources Programs Account	(0465)	\$2	\$2
CA. Children and Families First Trust Fund	(0623)	\$108	\$108
Federal Trust Fund	(0890)		
Timber Tax Fund	(0965)	\$17	\$17
Gas Consumption Surcharge Fund	(3015)	\$3	\$3
Water Rights Fund	(3058)	\$4	\$4
Elec. Waste Recovery and Recycling Acct.	(3065)	\$62	\$62
Cig. and Tobacco Prod. Compliance Fund	(3067)		
Federal Funds			
Other Funds			
Reimbursements	(0995)	\$660	\$660
Net Total Augmentation (Source of Funds)		\$2,480	\$2,480