

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 03/13)

Fiscal Year 2014-2015	BCP No. 3	Org. Code 0860	Department State Board of Equalization	Priority No. 3
Program All Programs			Element All Elements	Component N/A

Proposal Title
 HEADQUARTERS FACILITY CONSOLIDATION

Proposal Summary
 The Board of Equalization (BOE) requests \$500,000 (\$253,000 General Fund, \$117,000 Special Funds and \$130,000 Reimbursements) for the BOE to reimburse the Department of General Services (DGS) for any reasonable costs and/or expenses to enter into a lease or other agreement with a private party for a facility to relocate the BOE's Headquarters and annex facilities to a consolidated location. The DGS estimates costs of \$500,000 for site search development and feasibility analysis will be expended in FY 2014-15; no increased costs for FY 2015-16, as this is part of the construction phase. For FY 2016-17 the BOE estimates \$1,450,000 in one-time moving costs and no increased rental costs (See Attachment A).

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed
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Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date
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For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the California Technology Agency, or previously by the Department of Finance.

FSR SPR Project No. Date:

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.

Budget Officer	Date	Chief, Financial Management	Date
Deputy Director, Administration	Date	Executive Director	Date

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE CALSTARS Technology Agency

BCP Type: Policy Workload Budget per Government Code 13308.05

PPBA Date submitted to the Legislature

**STATE BOARD OF EQUALIZATION
Headquarters Facility Consolidation
Fiscal Year 2014-15**

A. Proposal Summary

This proposal requests \$500,000 (\$253,000 General Fund, \$117,000 Special Funds and \$130,000 Reimbursements) for the Board of Equalization (BOE) to reimburse the Department of General Services (DGS) for any reasonable costs and/or expenses to enter into a lease or other agreement with a private party for a facility to relocate the BOE's Headquarters (HQ) and annex facilities to a consolidated location. The DGS estimates costs of \$500,000 for site search development and feasibility analysis will be expended in FY 2014-15; no increased costs for FY 2015-16, as this is part of the construction phase. For FY 2016-17 the BOE estimates \$1,450,000 in one-time moving costs and no increased rental costs (See Attachment A).

B. Background/History

The BOE HQ building is located at 450 N Street. Construction of the building began in 1991 and was completed in January 1993. The building is a twenty-four story office facility which includes a four level parking structure, ground floor cafeteria, and a children's daycare center. The property is owned by the State of California, and maintained and managed by DGS.

In February of 1993, the BOE moved its headquarters operations into the building and currently rents from DGS. At the time the BOE relocated to the Headquarters building, the facility was an adequate space for the number of employees and also held a growth factor.

Insufficient to meet the BOE's business needs

Prior to May 2010, approximately 2,900 of the BOE positions were assigned to the Headquarters location at 450 N Street; which was built to hold a maximum of 2,200 employees. The overcrowding is due largely to growth in the staffing level to address legislative mandates for revenue collection and enforcement efforts. As a result, the BOE has been forced to move approximately 25 percent of the HQ operations to annex locations, disjoining staff and disrupting business functions. In order to be an efficient and effective organization, a consolidated workforce will enable the BOE to create new efficiencies while also accommodating long-term growth.

To address overcrowding issues, the BOE temporarily relocated approximately 700 employees and over one million taxpayer records to four annex locations, two in West Sacramento, one in Natomas, and one in downtown Sacramento.

The table below identifies the BOE programs and their annex locations as of June 1, 2013:

The BOE HQ Programs	Authorized Positions	Relocation Date	Annex
Motor Carrier/IFTA	54*	May 2010 (Permanent)	1030 Riverside W. Sacramento
Taxpayer Records	28	August 2008	3600 Industrial Blvd. W. Sacramento
Legal Office Board Proceedings	327	July 2010	621 Capitol Mall Sacramento
Tax Collection Programs External Affairs – Call Center Admin. Department - Training	315	December 2010	160 Promenade Sacramento
Main HQ Operations	2,171		450 N Street Sacramento
FY 12-13 BCP HQ Positions (start dates of 12-13 and 13-14)	251		
TOTAL	3,146		

*This program will not be relocating to the new Headquarters consolidated location.

The addition of the annex facilities has provided room for approximately 700 employees that will not fit in the HQ building. However, these facilities are at maximum capacity and leave no room for current or future growth. Based on the BOE HQ analysis, the average 3-year annual growth trend is 125.0 PYs per year; there will not be adequate space for any new positions in the 450 N Street facility or any of the four HQ annex locations. With the approval of the FY 2013-14 Budget Change Proposals (BCP), approximately 267.0 new positions are to be located at the BOE HQ in fiscal years 2013-2014 and 2014-15.

As a result, if additional tax or fee programs are mandated approximately 12-months will be needed to locate facilities to house the new staff, further delaying program implementation. Given the critical revenue generating work performed by the BOE, it needs a facility that can house all HQ staff, with reasonable room for growth – similar to the Franchise Tax Board's (FTB) campus.

C. State Level Considerations

The BOE collects taxes and fees that provide approximately 34 percent of the annual revenue for state government and essential funding for counties, cities, and special districts. In fiscal year 2010-11, the BOE-administered taxes and fees produced \$53.7 billion for education, public safety, transportation, housing, health services, social services, and natural resource management. The BOE administers the state's sales and use, fuel, alcohol, tobacco, and other taxes and collects fees that fund specific state programs. More than one million businesses are registered with the agency.

Operating a Headquarters function from five locations creates inefficiencies that ultimately cost the state thereby affecting its net revenue stream. Consolidating all day-to-day operational management into one location will create an organization with the resources that can begin to exercise leadership to accomplish long overdue strategic goals necessary to provide quality public service. Operating the BOE's HQ from five locations has increased operational costs to support additional infrastructures, information technology, and telecommunications. The continuation of operating the BOE HQ out of five separate locations creates a working environment that is untenable and results in an inefficiency of business operations and unrecovered costs that are not easily quantifiable.

An additional consideration is the 1.4 million square feet of office space that DGS has been authorized to develop, pursuant to Government Code (GC) §Section 8169.6, known as the West End Office Complex. When the BOE vacates the 450 N Street building, approximately 640,000 square feet of existing state office space will become available for use by the DGS, in lieu of constructing a new building.

D. Justification

The BOE will be better served in a facility that meets sustainable design principles, provides a working environment that is among the best in the state, and promotes recruitment and retention of revenue collection staff for California. The BOE must consolidate into a sustainable designed facility scalable for growth where a culture of service will prosper. A more effective organization will emerge, dedicated to serving all Californians, by consolidating operations in a low to mid-rise facility, similar to the FTB campus.

On June 28, 2013, the DGS conducted a report titled *the Relocation and Consolidation Preliminary Study of the Board of Equalization* that includes the following:

Through these process improvements and resulting higher morale of the BOE staff, a 5 percent improvement in productivity is anticipated. Based on current annual non-voluntary revenue (revenue collected by enforcement personnel), this could potentially equate to an additional \$89 million in revenue generated by staff.

The Sacramento region's current real estate market conditions provide for some favorable opportunities for planning future state office development. The existing real estate market is soft: the housing market has surplus inventory with a mortgage lending crisis and the commercial office market and employment figures remain relatively flat. This unique combination of a slow real estate market and the availability of viable redevelopment areas create a strategic opportunity for the state to potentially lease before future transit-oriented, mixed-use centers become too costly or unavailable.

Approval of the requested funding will provide employees with a functional work environment in order to operate more efficiently and effectively in meeting the BOE's core business-activities of collecting the state's revenues. Consolidation of the 450 N Street building and annex locations will allow the BOE to generate and process revenue more efficiently, protect the health and safety of employees, eliminate inefficiencies associated with managing operations across multiple annex locations, and accommodate future short-term and long-term growth. This will ensure the BOE's ability to meet future directives by the Legislature to generate much needed revenue for the state.

On July 3, 2013, the DGS updated information in their report titled *the Relocation and Consolidation Preliminary Study of the Board of Equalization* that includes the following:

The DGS shall undertake a preliminary study of the possible relocation and consolidation of the BOE headquarters and annexes in the Sacramento region. No later than June 30, 2013, the department shall report to the Joint Legislative Budget Committee (JLBC) the following:

- A business case, prepared either by the DGS or the BOE, examining the benefits and costs of consolidating the BOE headquarters and annexes in the Sacramento region.
- A planning timetable for acquiring or building consolidated facilities for the BOE.
- A complete set of options it will consider to provide such facilities as part of its overall planning process.
- Funding recommendations needed to carry out the facility planning process.
- Any recommendations on statutory authorizations necessary to move forward with the planning process.
- An examination of the potential future uses or plans for the current building at 450 N Street in Sacramento.

The DGS estimates costs of \$500,000 for site search development and feasibility analyses to be expended in FY 2014-15; no costs for FY 2015-16 as this is part of the construction phase. For FY 2016-17 the BOE estimates \$1,450,000 in one-time moving costs and no increased rental costs (See Attachment A).

E. Outcomes and Accountability

This proposal will enable the BOE to collaborate with DGS to prepare the Program Data Sheets to facilitate a Facility Design package and to identify a HQ site that is scalable for growth and meets the BOE's immediate and long-term business needs. The HQ employees will be consolidated to a location that meets the business needs of the BOE - securing business operations that allows the BOE to efficiently and effectively collect and generate revenue. The Deputy Director of Administration will maintain control and oversight of the site search.

F. Analysis of All Feasible Alternatives

Alternative 1: Provide funding of \$500,000 in FY 2014-15 to fund site search development and feasibility analysis.

Collaborate with DGS to prepare the Program Data Sheets to facilitate a Facility Design Package with which to solicit proposals, conduct site searches, and negotiate favorable long lease terms with responsive parties to provide the BOE a suitable facility in order to conduct its' statutory and business requirements. The BOE will pay DGS \$500,000 through an interdepartmental agreement based on DGS's price book to prepare a Facility Design Package and conduct a site search. This BCP provides for sufficient funding to conduct these initial activities.

Pros:

- Allows the BOE to locate needed facilities to meet our business needs to more effectively serve our taxpayers.
- Supports the BOE's mission of revenue generation and processing.
- Conforms to Government Code (GC) 14669(a) allowing DGS to lease a facility for the BOE which is compatible for the BOE's business needs.
- Plans for adequate space and reasonable program growth.
- Provides solutions to minimize staff disruptions, lost productivity, and revenue loss.
- Plans for the seamless transition of the 700 +/- employees from their temporary location into the new Headquarters facility at the end of the firm term of the existing leases.
- Through these process improvements and resulting higher morale of the BOE staff, a 5 percent improvement in productivity is anticipated. Based on current annual non-voluntary revenue (revenue collected by enforcement personnel), this could potentially equate to an additional \$89 million in revenue generated by staff.

Cons:

- Requires a budget augmentation.

Alternative 2: Internal redirection of \$500,000 in Operating Expenses and Equipment (OE&E) to fund site search development and feasibility analysis.

The BOE will pay DGS \$500,000 through an interdepartmental agreement based on DGS's price book to prepare a Facility Design Package and conduct a site search. Funding would come from an internal redirection of OE&E funds.

Pros:

- Eliminates budget augmentation.
- Allows the BOE to locate needed facilities to meet our business needs to more effectively serve our taxpayers.
- Supports the BOE's mission of revenue generation and processing.
- Conforms to GC 14669(a) allowing DGS to lease a facility for the BOE which is compatible for the BOE's business needs.
- Plans for adequate space and reasonable program growth.
- Provides solutions to minimize staff disruptions, lost productivity, and revenue loss.
- Plans for the seamless transition of the 700 +/- employees from their temporary location into the new Headquarters facility at the end of the firm term of the existing leases.
- Through these process improvements and resulting higher morale of the BOE staff, a 5 percent improvement in productivity is anticipated. Based on current annual non-voluntary revenue (revenue collected by enforcement personnel), this could potentially equate to an additional \$89 million in revenue generated by staff.

Cons:

- Disrupts existing support for revenue generating activities.
- Inhibits the BOE from moving forward with Strategic and Business plans to consolidate the HQ facility functions by redirecting OE&E funds to cover capital outlay needs.

Alternative 3: Postpone Architectural Revolving Fund projects.

Redirect internal funds of \$500,000 and postpone planned projects to fund the initial planning costs until additional funding is obtained.

Pros:

- Eliminates a need for budget augmentation.
- Allows the BOE to locate needed facilities to meet our business needs to more effectively serve our taxpayers.
- Supports the BOE's mission of revenue generation and processing.
- Conforms to GC 14669(a) allowing DGS to lease a facility for the BOE which is compatible for the BOE's business needs.
- Plans for adequate space and reasonable program growth.
- Provides solutions to minimize staff disruptions, lost productivity, and revenue loss.
- Plans for the seamless transition of the 700 +/- employees from their temporary location into the new Headquarters facility at the end of the firm term of the existing leases.

Cons:

- Disrupts implementation of 3-year facility master plan by redirecting internal funding.
- Aging facilities would continue to deteriorate without completing the necessary repairs.

Alternative 4: Do not approve this request.

Continue to operate the functions of the HQ Facility at five different locations.

Pros:

- Does not require a budget augmentation.
- Allows DGS to work on other facility related projects.

Cons:

- Does not allow the BOE to consolidate all day to day operational management jobs into one location that will advance an organization with the resources that can begin to exercise the leadership to accomplish long overdue reforms necessary to improve quality to public service.
- Inhibits the BOE's ability to strategically plan for its mission of revenue generation and processing.
- Does not allow planning for adequate space for reasonable program growth.
- A lack of long-term space planning provides challenges to the state and to the BOE's ability to work efficiently and effectively.
- HQ operations would remain disjointed due to the decentralization of the BOE's Headquarters' employees over five separate locations as a result of capacity limitations.

G. Implementation Plan

Upon approval of Alternative 1, the BOE will collaborate with DGS to conduct planning and site searches to implement this proposal beginning July 1, 2014. For the HQ relocation, a multi-year phased approach will be used for site selection (2015), construction (2015–2017), and moving over 3,000 employees from the BOE's HQ and annex facilities to a consolidated location which should be completed near the end of 2017.

H. Supplemental Information (Space/Facility/Equipment Needs)

None Facility/Capital Costs Equipment Contracts Other

Consulting and Professional Services will be necessary, as the BOE will initiate an interdepartmental agreement with DGS to prepare a Facility Design Package. The BOE will pay DGS \$500,000 for these services, based on DGS's price book.

I. Recommendation

Alternative 1 is recommended. Approve a budget augmentation of \$500,000 in FY 2014-15 to fund a Facility Design Package for the relocation of the BOE's HQ.

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As reflected in the charts below, the BOE estimates \$1,450,000 one-time moving costs and no increased rental costs.

Moving Cost Estimates		
FY 2014-15	FY 2015-16	FY 2016-17
Site search development and feasibility analyses - \$500,000	Start construction	Initiate moves - \$1,450,000
Submit Form 10 to DGS/DOF for approval		*No increased rental costs
Submit JLBC notification		
DGS negotiates for lease and construction		
\$500,000	\$0	\$1,450,000

The BOE’s FY 2013-14, lease costs at 450 N Street (\$3.14 per square foot), 621 Capitol Mall (\$3.30 per square foot), and 160 Promenade Circle (\$2.31 per square foot) are scheduled to increase at least three percent per year. By FY 2016-17, the BOE will be looking at an average cost of \$3.29 per square foot on existing HQ properties.

Based upon private sector analysis, the BOE should be able to secure a new campus facility under a lease/build-to-suit procurement process at an estimated \$3.00 per square foot, if the State were to begin negotiations within the next 12 months. Developer and other incentives would cover employee moving costs estimated at \$500 per employee or about \$1.5 million. Accordingly, after the move, there should be a small savings for the BOE relative to what it would be paying at 450 N Street and the HQ annexes.

Rental Cost Estimates						
Facility	13/14			16/17		
	Sq. Footage (Ft)	13/14 Per Sq. Ft Rate	Per Annum Escalator	Projected Per Sq. Ft Rate **	Projected Rent Per Month	Projected Rent Per Year
450 N St. - Office	449,138	\$3.14	3%	\$3.42	\$1,537,219.72	\$18,446,636.63
450 N St. - Storage	14,077	\$1.05	3%	\$1.14	\$16,111.13	\$193,333.52
621 Capitol Mall	61,544	\$3.30	3%	\$3.64	\$224,160.00	\$2,689,920.00
160 Promenade Cir	60,989	\$2.31	3%	\$2.50	\$152,473.00	\$1,829,676.00
Total	585,748			Average \$3.29	\$1,929,963.85	\$23,159,566.14
New Facility *	585,748	\$3.00	3%	\$3.27	\$1,915,395.96	\$22,984,751.52

* - Estimated

** - Compounded to 9% between 13/14 - 16/17

If the average cost of the past building repairs (\$64M) at 450 N Street were factored in, the BOE paid approximately \$5.51 per square foot over the past five years (\$64M /5 years = \$12.8M/12 months/449,138sf = \$2.37 + \$3.14 = \$5.51).

The future building repairs are estimated at \$5M to \$7M per year for the next three years. This equates to an additional per square foot cost of \$0.93 (\$5M/12/449,138sf = \$0.93) to \$1.30 (\$7M/12/449,138sf = \$1.30) for a total cost of \$4.07 (\$3.14 + \$0.93 = \$4.07) to \$4.44 (\$3.14 + \$1.07 = \$4.44) per square foot cost without rent escalators.

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Fiscal Summary
(Dollars in thousands)

BCP No. 3	Proposal Title Headquarters Facility Consolidation			Program All Programs		
Personal Services	Positions			Dollars		
	CY	BY	BY + 1	CY	BY	BY + 1
Total Salaries and Wages ¹	0.0	0.0	0.0			
Total Staff Benefits ²						
Distributed Administration						
Total Personal Services	0.0	0.0	0.0			
Operating Expenses and Equipment						
General Expense						
Distributed Administration						
Printing						
Communications						
Postage						
Travel-In State						
Travel-Out of State						
Training						
Facilities Operations						
Utilities						
Consulting & Professional Services: Interdepartmental ³					\$500	
Consulting & Professional Services: External ³						
Data Center Services						
Information Technology						
Equipment ³						
Other/Special Items of Expense: ⁴						
Total Operating Expenses and Equipment					\$500	
Total State Operations Expenditures					\$500	
Fund Source	Item Number					
	Org	Ref	Fund			
General Fund	0860	001	0001		\$253	
Special Funds ⁵					\$117	
Federal Funds						
Other Funds (Specify)						
Reimbursements	0860	001	0995		\$130	
Total Local Assistance Expenditures						
Fund Source	Item Number					
	Org	Ref	Fund			
General Fund						
Federal Funds						
Other Funds (Specify)						
Reimbursements						
Grand Total, State Operations and Local Assistance					\$500	

¹ Itemize positions by classification on the Personal Services Detail worksheet.

² Provide benefit detail on the Personal Services Detail worksheet.

³ Provide list on the Supplemental Information worksheet.

⁴ Other/Special Items of Expense must be listed individually. Refer to the Uniform Codes Manual for a list of standard titles.

⁵ Attach a Fund Condition Statement that reflects special fund or bond fund expenditures (or revenue) as proposed.

Supplemental Information

(Dollars in thousands)

BCP No. 3	Proposal Title Headquarters Facility Consolidation
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Equipment	CY	BY	BY +1
Standard Complement			
Total			

Consulting & Professional Services			
Contract with DGS to prepare a Facility Design Package.		\$500	
Total		\$500	

Facility/Capital Costs			
Total			

One-Time/Limited-Term Costs Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>						
Description	BY		BY +1		BY +2	
	Positions	Dollars	Positions	Dollars	Positions	Dollars
	0.0		0.0		0.0	

Full-Year Cost Adjustment Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>						
<i>Provide the incremental change in dollars and positions by fiscal year.</i>						
Item Number	BY		BY +1		BY +2	
	Positions	Dollars	Positions	Dollars	Positions	Dollars
Total	0.0		0.0		0.0	

Future Savings Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>						
<i>Specify fiscal year and estimated savings, including any decrease in positions.</i>						
Item Number	BY		BY +1		BY +2	
	Positions	Dollars	Positions	Dollars	Positions	Dollars
Total	0.0		0.0		0.0	

