

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 07/14)

Fiscal Year 2016-2017	Business Unit 0860	Department State Board of Equalization	Priority No. 5
Budget Request Name 0860-005-BCP-BR-2016-GB		Program ALL PROGRAMS	Subprogram

Budget Request Description
 Headquarters Facility Consolidation

Budget Request Summary

The Board of Equalization (BOE) requests \$500,000 (\$260,000 General Fund, \$95,000 Special Funds and \$145,000 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 2016-17; no increased costs for FY 2017-18, as this is part of the construction phase. For FY 2018-19, the BOE estimates \$1,450,000 in one-time moving costs and no increased rental costs.

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 No	Code Section(s) to be Added/Amended/Repealed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 Department of Technology, 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 Division	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
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Analysis of Problem

A. Budget Request Summary

This proposal requests \$500,000 (\$260,000 General Fund, \$95,000 Special Funds and \$145,000 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 2016-17; no increased costs for FY 2017-18, as this is part of the construction phase. For FY 2018-19, the BOE estimates \$1,450,000 in one-time employee move costs and no increased rental costs. Costs associated with the purchase of employee cubicles will be a condition of the lease agreement.

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 HQ operations into the building and currently rents from DGS. At the time the BOE relocated to the HQ building, the facility was an adequate space for the number of employees and also held a growth factor.

Prior to May 2010, approximately 2,900 of the BOE positions were assigned to the HQ 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.

Analysis of Problem

The table below identifies the BOE programs and their annex locations as of July 1, 2015:

The BOE HQ Programs	Total Positions	Relocation Date	Annex
Motor Carrier/IFTA	56*	May 2010 (Permanent)	1030 Riverside West Sacramento
Taxpayer Records	24	August 2008	3600 Industrial Boulevard West Sacramento
Legal Office Board Proceedings Media Production	357	July 2010	621 Capitol Mall Sacramento
Tax Collection Programs Customer Service Center Administration, Training	304	December 2010	160 Promenade Sacramento
Main HQ Operations	2,088		450 N Street Sacramento
FY 15/16 BCP HQ Positions	23		
TOTAL	2,852		

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

The addition of the BOE's annex facilities has provided room for approximately 700 employees that will not fit in the HQ building. With inclusion of the 23 additional FY 2015/16 BCP positions, 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 approximately 47 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. Additionally, the DGS currently estimates the pending HQ renovation project will begin in FY 2017/18 which will require at least four floors be vacated to conduct renovation activities. Since the BOE's HQ and annex locations are at capacity, additional leased space for approximately four floors of HQ employees will be required to temporarily house these employees once the HQ renovation project begins. Prior to project commencement in FY 2017/18, 12-months lead time, beginning in FY 2016/17, is necessary to locate and prepare additional space.

In addition to the HQ renovation project, 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, fees, and surcharges that provide over 30 percent of the annual revenue for state government and essential funding for counties, cities, and special taxing districts. In FY 2013-14, the BOE administered taxes and fees that produced \$60.4 billion for education, public safety, transportation, housing, health services, social services, and natural resource management. The BOE

Analysis of Problem

administers the state's sales and use, fuel, alcohol, tobacco, and other taxes, and collects fees that fund specific programs. More than one million businesses are registered with the agency.

Operating a HQ 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.

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.

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 in Sacramento's suburban area is soft: the commercial office market and employment figures remain relatively flat. This unique combination of a slow real estate market and the availability of viable development areas create a strategic opportunity for the state to potentially lease before future transit-oriented, retail development, and/or 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 September 26, 2013, the DGS released a Request for Information to seek insight towards the ultimate goal of addressing the BOE's facility needs. The DGS received 26 responses from developers, property owners, and other interested parties who expressed an interest in providing a new facility for the BOE's HQ operations.

On August 15, 2013, the DGS amended information in their June 28, 2013, 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.

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- 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.

Since the DGS' release of the Relocation and Consolidation Preliminary Study, Board of Equalization, amended August 15, 2013, the Governor approved Assembly Bill 1656 (Dickinson), chaptered by the Secretary of the State on September 9, 2014. As such, Government Code, Article 2, State Property, Section 14669.16 has been amended to include:

- (a) The Department of General Services shall, by July 1, 2015, complete a long-range planning study of the state-controlled and owned office buildings in the County of Sacramento and the City of West Sacramento, including the Board of Equalization Headquarters, for the management of the state's space needs in the Sacramento region.
- (b) The planning study shall contain, but is not limited to, the following:
 - (1) Evaluation of the overall state facility needs in the Sacramento region, including the capacity of currently owned and leased space.
 - (2) Evaluation of each building including, but not limited to, condition, age, building use, and the extent that it meets the business needs and location of the state entity occupying the space.
 - (3) The impact the building's age and design has on potential reconfiguration and consolidation for state needs.
 - (4) The viability of antiquated building infrastructure systems, including the present and probable future availability of replacement parts for the systems in the buildings.
 - (5) Evaluation of office buildings in need of major repairs or renovations to correct deficiencies, including estimated costs for fire and life safety, accessibility, seismic safety, and other building code compliance issues, and known existence of encapsulated hazardous materials and lead-based paint.
 - (6) Other considerations deemed appropriate by the Department of General Services, in consultation with the state entity occupying the building, may be included.
 - (7) The development of a logical sequencing plan for renovation, replacement, or both, of existing state office buildings and new office development in the Sacramento region to guide the state over the next 25 years.
- (c) The findings in this long-range planning study shall be used as the basis for recommendations and developing detailed cost and scope information to be considered in future budget proposals.
- (d) Beginning with the three buildings with the most significant and immediate renovation or replacement needs, including highest cost of total maintenance and repair to usable space, and other related costs identified in the long-range planning study, the Director of General Services shall issue one or more requests for proposals for the planning, design, construction, and acquisition of facilities that have been recommended by the Legislature based on the planning study completed under this section. The Director of General Services shall issue the requests for proposals within 12 months of the Legislature making the recommendation described in this subdivision.

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In concurrence with this study, on September 25, 2014, the California State Auditor (CSA) prepared Report 2014-108 to assess the efforts of the BOE and DGS to analyze the costs of needed repairs to the building, the potential loss of worker productivity and state tax revenue during repairs, and the costs and benefits of continuing to house BOE headquarters employees in the building compared to moving them to a new facility. The CSA's Recommendations (Report, Page 30), state:

To ensure that resources are spent wisely, General Services should seek the funding and approval needed to analyze whether keeping or selling the BOE building would be in the State's best financial interest. As part of that analysis, General Services should conduct, or contract for, appraisals to assess the value of the building with and without the repairs to determine whether making the repairs is in the best interest of the State. If continued ownership of the building appears to be prudent, General Services should evaluate potential productive uses for the building should BOE move to a new facility. General Services should report the results of its analysis to the Legislature no later than September 2015.

The DGS' State Facility Long-Range Planning Study, released on July 3, 2015, assessed the condition of state-owned office buildings in the County of Sacramento and City of West Sacramento to determine the best course of action to address DGS' office building infrastructure deficiencies. A detailed Facility Condition Assessment (FCA) was compiled for each of these 29 facilities and may support the BOE's HQ move to a new location.

For the BOE to have a consolidated campus location, DGS estimates costs of \$500,000 for site search development and feasibility analyses to be expended in FY 2016-17; no costs for FY 2017-18 as this is part of the construction phase. For FY 2018-19 the BOE estimates \$1,450,000 in one-time moving costs and no increased rental costs (see Attachment A). The relocation of BOE's HQ and annex employees in FY 2018-19 to the new location would be accomplished through a phased approach – a timeframe for completion would be negotiated with DGS, BOE, and DOF, but is currently estimated to last one year.

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 an 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 2015-16 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.

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- 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 HQ facility at the end of the firm term of the existing leases.

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 the need for a 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 HQ facility at the end of the firm term of the existing leases.

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 HQ facility at the end of the firm term of the existing leases.

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Cons:

- Disrupts implementation of 3-year facility master plan by redirecting funding dedicated for these projects.
- 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 HQ 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, 2016. For the HQ relocation, a multi-year phased approach will be used for site selection (2017), construction (2017–2019), 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 2019.

H. Supplemental Information

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 2016-17 to fund a Facility Design Package for the relocation of the BOE's HQ.

Attachment A – Headquarters Consolidation

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 2016-17	FY 2017-18	FY 2018-19
Site search development and feasibility analyses - \$500,000	Start construction	Initiate moves - \$1,450,000
Submit Form 10 to DGS/DOF for approval		
Submit JLBC notification		
DGS negotiates for lease and construction		
\$500,000	\$0	\$1,450,000

The BOE’s FY 2014-15, lease costs at 450 N Street (\$3.18 per square foot), 621 Capitol Mall (\$3.33 per square foot), and 160 Promenade Circle (\$1.45 per square foot) are scheduled to increase at least three percent per year. By FY 2018-19, the BOE will be looking at an average cost of \$3.34 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.

450 N Street and Annex Rental Cost Estimates							
Facility	FY 14/15				FY 18/19		
	Sq. Footage (Ft)	14/15 Per Sq. Rate	Current Rent Per Month	Per Annum Escalator	Projected Per Sq. Ft. Rate**	Projected Rent Per Month	Projected Rent Per Year
450 N Street - Office	449138	\$ 3.18	\$ 1,428,258.84	3%	\$ 3.58	\$ 1,607,914.04	\$ 19,294,968.48
450 N Street - Storage	14077	\$ 1.04	\$ 14,640.08	3%	\$ 1.17	\$ 16,470.09	\$ 197,641.08
621 Capitol Mall	61544	\$ 3.33	\$ 204,941.52	3%	\$ 3.75	\$ 230,790.00	\$ 2,769,480.00
160 Promenade	60989	\$ 1.45	\$ 88,434.05	3%	\$ 1.63	\$ 99,412.07	\$ 1,192,944.84
Total	585748		\$ 1,736,274.49			\$ 1,954,586.20	\$ 23,455,034.40
Average Per Sq. Ft.		\$ 2.96*			\$ 3.34*		

* - Based on total current and total projected rent per month /Sq. Ft.

** - Compounded to 12% between 14/15 – 18/19.

Comparison Rental Cost Estimates						
Facility	FY 14/15			FY 18/19		
	Sq. Footage (FT)	14/15 Per Sq. Ft. Rate	Per Annum Escalator	Projected Per Sq. Ft. Rate ^{***}	Projected Rent Per Month	Projected Rent Per Year
Current Facilities ¹	585748	\$ 4.36*	3%	\$ 4.47 ⁺	\$ 2,619,310.44	\$ 31,431,725.28
Proposed New Facility ^{**}	585748	\$ 3.00	3%	\$ 3.38	\$ 1,979,828.24	\$ 23,757,938.88
TOTAL SAVINGS		\$ 1.36		\$ 1.09	\$ 639,482.20	\$ 7,673,786.40

¹ – See 450 N Street and Annex Rental Cost Estimates on page 8.

* - Includes total cost of repairs from 2006-2012 (\$58.7M).

** - Estimated

*** - Compounded to 12% between 14/15 – 18/19.

+ - Overall average FY 14/15 rent per sf (\$3.18) + 12% compounded interest + estimated \$40 M (\$1.48 per sf) for future repairs and FY 14/15 rent per sf for HQ annex locations.

When the average cost of the building repairs between 2006 and 2012 (\$58.7M) at 450 N Street is factored in, the BOE has paid rent equivalent to \$5.00 per square foot during these six years (\$58.7M /72 months /449,138sf = \$1.82 + \$3.18 = \$5.00). Over the past eight years, between 2006 and 2014, the average rental rate has been equivalent to \$4.55 per square foot (((\$5.00 per sf* 72 months + \$3.18 FY14/15 avg. * 24) /96 months = \$4.55). Currently, the average rental rate for the BOE’s HQ operations (585748sf) including annex locations and \$58.7 M in prior remediation is \$4.36 per square foot (((\$3.18 per sf + \$1.82 per sf for remediation = \$5.00 * 449138sf + \$1.04 *14077sf + \$3.33 *61544sf + \$1.45 * 60989sf) /585748sf = \$4.36 per sf.

Furthermore, the DGS estimates future 450 N Street building repairs over the next five years (two years to develop the scope of work plus three additional years to conduct the repairs) to be approximately \$40 million. This is equivalent to the State paying \$4.66 per square foot for the 450 N Street building (\$40M /60 /449,138sf = \$1.48 + \$3.18 = \$4.66), which is significantly higher than the cost the State would pay per square foot to house BOE in a new consolidated facility.

DF-46 (REV 05/11)

Fiscal Summary
(Dollars in thousands)

BCP No. 4	Proposal Title HQ Consolidation	Program
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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		\$260	
Special Funds ⁵					\$95	
Federal Funds						
Other Funds (Specify)						
Reimbursements	0860	501	0995		\$145	

Total Local Assistance Expenditures						
Fund Source	Item Number					
	Org	Ref	Fund			
General Fund						
Special Funds ⁵						
Federal Funds						
Other Funds (Specify)						
Reimbursements						

Grand Total, State Operations and Local Assistance					\$500	
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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.

