June 28, 2013 *amended August 15, 2013*

Relocation and Consolidation Preliminary Study

Board of Equalization

Department of General Services

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Introduction

Purpose

The Supplemental Report of the 2012-13 Budget Package requires the Department of General Services (DGS) to undertake a preliminary study of the possible relocation and consolidation of the Board of Equalization (BOE) headquarters and annexes in the Sacramento region.

This study provides an analysis of opportunities and feasibility of developing a new headquarters for the BOE. Information developed for this study includes a business case prepared by the BOE to support its relocation and consolidation, as well as the background information, development process, and strategies required to move this study forward as prepared by the DGS.

The following study also addresses the requirements for the relocation and consolidation of the BOE headquarters and annexes in the Sacramento region.

The 2012-13 Budget Supplemental language:

> *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 BOE headquarters and annexes in the Sacramento region.*
> - *a planning timetable for acquiring or building consolidated facilities for 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 BOE building at 450 N Street in Sacramento.*

1.0 Business Case

Business Case (provided by the BOE)

a) *The BOE's business needs require that it consolidates its Headquarters and annex or ancillary facilities into a single location. Currently, the BOE Headquarters operations are housed in five different locations throughout the greater Sacramento area. One of the five locations is the Motor Carrier Unit which will not be relocated during a consolidation effort. A second unit, Taxpayer Records Unit will be absorbed back into the 450 N Street building in 2015. These multiple locations require staff to travel from location to location to attend meetings, to deliver and retrieve documents, and requires a mail courier service. Additional information related to these ancillary spaces can be found later within this report. Since all five HQ locations are near capacity, this will impact the BOE's ability to add staff to address legislative mandates for revenue collection and enforcement activities. Currently, the return processing and review functions are on four separate floors in the headquarters building. The BOE is in the process of a functional reorganization and consolidating these functions into one Filing Services Department; however, there is inadequate room to locate this new department on one floor.*

b) *BOE has planned for many years to streamline its business operations into a horizontal movement of tax documents and receipts through the scanning to destruction process from station to contiguous station without being moved vertically from floor-to-floor by courier. This is similar to the Franchise Tax Board's (FTB) processes. By relocating and consolidating the BOE's headquarters and two annexes to a low-rise facility, this type of change can be readily accomplished. The BOE's work flow process and collection efficiency can be greatly improved as witnessed by the FTB. The FTB process utilizes large floor plates to create a paper "pipeline" process capable of streamlining its operations. In addition to other requirements, portions of the FTB's new facility were specifically designed to enhance this critical requirement.*

c) *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.*

d) *Given the history of the BOE building and funds spent thus far and unknown future work required on the building, BOE believes it is in the best interest of the state to consider moving this building to private ownership.*

In addition, the BOE HQ authorized positions have exceeded the State Fire Marshal's approved occupancy level for the 450 N Street building. The BOE is currently operating with approximately 650 personnel working in locations other than in close proximity to its business partners. This number will grow to over 1,000 personnel in the next five years (See Attachment 1).

Existing Facilities

Headquarters

The BOE Headquarters building located at 450 N Street is owned by the state of California and has property management services provided by the DGS. The BOE is the sole tenant and pays a monthly rent as identified annually by the DGS to occupy the building. The rent is a component of the retirement of the bonds and also covers any additional costs to maintain, upgrade, operate, or fund other routine repairs to the building. Small secondary tenants include childcare and cafeteria vendors. Since 2005, the BOE has provided additional funds for special repairs and improvements throughout the building totaling approximately $64 million. Additionally, the BOE has provided $18 million to the Architectural Revolving Fund (ARF) for repairs and improvements in the upcoming years.

California Public Employees Retirement System (PERS) began construction of the BOE Headquarters building in 1991 and it was completed in January 1993. The BOE moved its headquarters operations into the building in February 1993.

The Headquarters building is a twenty-four story office facility and is comprised of approximately 616,000 gross square feet (463,000 useable square feet) of office space. Floors 2 through 22 are relatively uniform floors with approximately 21,350 useable square feet (USF) of office space. Floors 23 and 24 have approximately 14,465 USF of office space. The ground floor has a different footprint and includes a full-service cafeteria and a childcare center. Although various reviews of the occupancy levels have been completed over the years, the most recent, a 2009 analysis determined an appropriate Occupancy Load Factor (OLF) of 2,218 employees. This level is based on the 2007 California Building Code (the building was originally designed to the 1998 Uniform Building Code). However, the actual workstation count has been higher than the 2,218.

As a result of the repairs and improvements made over the past several years, approximately 5 to 6 percent of the workstations have been left unoccupied due to swing space needs required to complete this work. It is anticipated this workstation count will not change in the near future due to the need for the ongoing repairs or improvements required within the building.

Ancillary Office Space

Currently, the BOE requires space for approximately 2,900 employees for a consolidated headquarters operations. In addition to the Headquarters building, the BOE also houses employees at four other locations totaling 159,000 net square feet (nsf). Of the 159,000 nsf, 14,274 belongs to the Motor Carrier Unit and will not be considered as part of the consolidation and 21,781 belonging to the Taxpayer Records Unit warehouse will be vacated in 2015. In the end, it will result in approximately 123,000 nsf of space outside of 450 N Street building assuming no other increases/decreases in space requirements. The BOE continues to work with the DGS to right size the headquarters and annexes locations by identifying adequate office space for additional employees.

The staffing increases are due largely to growth to address legislative mandates for revenue collection and enforcement efforts. Given that the 450 N Street will hold 2,200 employees, the BOE has moved 25 percent of the 2,900 authorized positions or over 700 of those positions to four different annex locations in the greater Sacramento area.

The four ancillary locations, including square foot and employee count are:

- 106 Promenade Circle, Sacramento (60,989 net square feet & 325 employees).
- 621 Capitol Mall, Sacramento (61,544 net square feet & 326 employees).
- 1030 Riverside Parkway, West Sacramento (14,274 net square feet & 65 employees).
- 3600 Industrial Boulevard, West Sacramento (21,781 net square feet & 30 employees).

It is anticipated the employees located at Industrial Boulevard location will be absorbed into 450 N Street in Fiscal Year 2015.

Growth

The BOE authorized position levels are impacted when legislation for revenue collection and enforcement efforts are enacted. While these contribute to the position level growth, the BOE is continually attempting to collect on the non-voluntary revenue which can be done with increased efficiency as well as increasing staffing levels which typically accompany a new fee or tax. As a result of these fee or tax changes, the BOE's average yearly, five-year, and eight-year authorized position growth rates are as follows:

Department of General Services

Fiscal Year	Yearly Rate	5 Year Average	8 Year Average
2012/13	5.76%	3.32%	2.77%
2011/12	3.61%	2.31%	2.93%
2010/11	2.31%	2.06%	2.55%
2009/10	2.22%	2.35%	2.11%
2008/09	2.67%	2.45%	1.17%

Based on the historic growth rates and assuming modest position growth projections of 3 percent per year, there will be inadequate space for additional positions in the near future. Under this assumption, the BOE will have over 300 additional positions by fiscal year 2016/2017 and over 700 additional positions by 2021/2022 above the current position levels (approximately 2,900). The result of a 3 percent growth will produce position levels not in the headquarters building to reach 39 percent of all positions or 1,400 by 2021/2022. Even at a 2 percent growth rate, the BOE would have 1,200 additional positions. Consequently, the implementation of any additional tax and fee programs enacted by the Legislature would likely be delayed because it may take up to 12 months to locate and lease facilities to house the new staff. The BOE needs a new facility that can house all Headquarters staff, with reasonable room for growth, to better facilitate the revenue generating work.

Ownership

The BOE relocated from its former headquarters in the Legislative Office Building at 1020 N Street. The 450 N Street building was constructed by the PERS in 1991, with the BOE taking occupancy in January 1993 under a long term lease/purchase agreement. The initial non-discretionary lease/purchase agreement included a ten-year prohibition on the state's exercise of its obligation to purchase the facility. While the initial "interim" lease made the PERS, as the lessor, formally responsible for all maintenance and repairs, in April 1999 the DGS took over all of these responsibilities as was originally intended by the PERS and the DGS. The state was now responsible for the cost of all maintenance and repairs for the building moving forward. In December 1993, the DGS and the PERS entered into a Lease Purchase Agreement which terminated the original agreement. In November 2006, the DGS initiated the purchase of the building, accelerating its exercise of the purchase obligation. The economic benefit of exercising the purchase option saved the state approximately $31 million through the reduction of the existing interest rate of 10.25 percent to rates just above 5 percent over the life of the bonds.

<u>CURRENT OBLIGATION</u>

<u>Bonds</u>
In 2011, Bonds (Series 2011E taxable bonds, authorized under Government Code Section 11012.5) were issued to acquire the 450 N Street building from the Public Employees Retirement System, which was constructed in 1991. The final maturity of the bonds was for ten years versus a typical 20 or 25 year final maturity for bonds issued to fund the construction of a new building. The Facility Lease <u>requires base rental payments on or before</u> November 15 and May 15 of each year, and provides the Board fifteen days to make the debt service payments in December and June. The final debt service payment is due December 1, 2021.

<u>Bond Redemption Provisions</u>
Similar to other taxable bond redemption features, these bonds were issued with a Make-Whole Optional Redemption provision. The Make-Whole Optional Redemption provision allows the bonds to be redeemed at the option of the State Public Works Board, from any available funds, in whole or part, prior to their maturity. The redemption price shall be equal to the greater of: (1) the principal amount of the bonds to be redeemed plus accrued interest on such bonds to be redeemed to the redemption date, or (2) a complex formula that provides the holder of the bonds compensation for the principal and future interest payments based on a present value calculation, plus accrued interest on such bonds to be redeemed to the redemption date. The Make Whole Price is subject to change and is based on the rates and changes in the constant maturity of the United States Treasury securities, the timing of the redemption of the bonds and the amount of principal outstanding to be redeemed.

Based on the Make Whole Optional Redemption provision, if the redemption is exercised on December 1, 2013, or December 1, 2016, the estimated cost to redeem the bonds, based on current market conditions, would be $100.3 million or $69.2 million respectively.

<u>Occupancy</u>
Similar to all other facilities which have been financed with bond proceeds, the facility lease requires beneficial use and occupancy by the tenant. Failure by the tenant to maintain occupancy would trigger the abatement of the bonds and jeopardize the state's credit. It is anticipated that BOE will continue to occupy the building; however, BOE has expressed a desire to relocate to another facility in the future given its projected growth and lack of available space in this building. Should the state decide to relocate BOE prior to the bonds being retired or redeemed, DGS, which manages the building, would be required to identify one or more other state agencies to occupy this building. As per Government Code 14682, if the BOE vacates the state-leased building,

they must continue to pay rent unless and until a new tenant is assigned or until the Department of General Services can negotiate a mutual termination of the lease.

2.0 Planning Timetable

The timeline for a relocation and consolidation will vary depending upon the delivery method selected to build or procure a facility. The delivery methods available to the state are: Capital Outlay (Design–Bid–Build or Design–Build) and Lease (Straight lease, Build to Purchase Lease with Option(s), and Fully Amortizing Capital Lease). These methods have been traditionally utilized to deliver state office projects. Each method carries a slightly different timetable and ranges from approximately four years for a straight lease to approximately six years for a Design – Bid – Build delivered project. A straight lease will be similar in length to the other lease delivery methods if it does not meet the environmental conditions stated below.

For the purpose of this preliminary report, the DGS has assumed that for the Design-Bid-Build and Design-Build capital outlay delivery methods, full site selection, acquisition under the requirements of the Property Acquisition Law and completion of a California Environmental Impact Report will be required. Conversely, for the Straight Lease, Build to Purchase Lease with Option(s) and the Fully Amortizing Capital Lease delivery methods, it is assumed that the state would solicit proposals for fully entitled development sites and only minimal modifications to the environmental impact report would be necessary by the developer. If it is determined that a fully entitled site is available, the timeline for project delivery could be shortened by several months up to one year.

The assumptions and schedules presented for the capital outlay delivery methods should be viewed primarily as best case scenarios, in that they do not include delays beyond the DGS' direct control which have often occurred for capital projects. These delays include site acquisition challenges:

1. lack of appropriate and available sites for purchase,
2. unwilling property sellers
3. discovery and/or remediation of previously unknown hazardous materials and
4. litigation or other delays associated with the California Environmental Quality Act (CEQA) process.

Historically, capital outlay projects have also suffered delays due to the state's budget and fiscal conditions, lack of interim project financing (ex. unavailability of Pooled Money Investment Funds), delays in funding sequential project phases through the budget act and/or delays of the state enacting a budget. These are problems that have historically lengthened project delivery schedules for many capital projects, sometimes for one or more years. Additionally, some projects have even been initiated and later suspended during Acquisition and Design phases due to the state's long running fiscal challenges.

Given that the real estate market and state's fiscal condition are likely to change from its current situation, future studies or reports will need to evaluate the delivery methods further as well as the availability of funding/financing.

While a Straight Lease is included in the delivery options, traditionally the DGS has not utilized this method on large projects. The reason for not using a Straight Lease is the inability for the state to gain equity in this delivery method.

Delivery Methods

Capital Outlay

The traditional Capital Outlay process consists of several major steps. Those steps and approximate durations are noted below in Table 2.1. Additional information about each step can be found in State Administrative Manual (SAM) Section 6808.

Design–Bid–Build

Steps	Durations
Concept and documentation	2 to 5 months
Budget approval	17 months
Site selection and acquisition	Up to 24 months
Environmental review: Concurrent with site selection and acquisition phases	12 months
Preliminary plan	12 to 15 months
Working drawing	12 to 15 months
Bidding	6 months
Construction	24 to 30 months
Close-out	3 to 12 months

Table 2.1

Given that some of the steps can be concurrent, the estimated time line from Site Selection through the end of Construction will be just over six years.

Design – Build

Similar to the process described in Design-Bid-Build, Design-Build will require:

(1) Concept and documentation

(2) Historical resources
(3) Budget approval
(4) Site selection and acquisition
(5) Environmental review
(6) Preliminary plan
(7) Bid
(8) Working drawings and Construction, and
(9) Close-out phases.

During the Preliminary plan phase of Design-Build, the state will develop concept drawings and performance criteria as required in Government Code Sections 13332.19 and 14661. Concept drawings are of less detail than the drawings developed during the Preliminary plan phase.

With Design-Build, the final design (working drawings) and construction are concurrent work items and are completed by a Design-Build Entity (construction contractor and architectural/engineering team) rather than the state's design team as required in the Design-Bid-Build process. The Design-Build process allows the entity to begin designing and constructing the facility concurrently. This overlap leads to a savings of both time and cost. On a project of this size, it would not be unreasonable to expect a saving of approximately six plus months in delivering this project. This savings is largely attributable to the less detailed concept drawings up front and the overlap of the working drawings and construction phases in the latter portion of the project.

Steps	**Durations**
Concept and documentation	2 to 5 months
Budget approval	17 months
Site selection and acquisition	Up to 24 months
Environmental review: Concurrent with site selection and acquisition phases	12 months
Concept Drawings and Performance Specification: Concurrent with site selection and acquisition phases	12 months
Design-Builder Selection	6 months
Working drawing / Construction	24 to 30 months
Close-out	3 to 12 months

Table 2.2

Given that some of the steps can be concurrent, the estimated time line from Site Selection through the end of Construction will be just under five years.

Lease

Leasing space may begin by either a Space Action Request via a Customer Request: Upgraded Information Sharing Environment (CRUISE) formally known as a Standard 9 or by a Capital Outlay Budget Change Proposal (COBCP) depending on the intent of the lease. CRUISE is a DGS web based electronic business application which allows state agencies to submit the Standard 9 electronically.

If the intent is to not have ownership in the facility, the process starts with the client preparing a CRUISE as required by SAM Section 6453 and 1405. A department must also coordinate the CRUISE with the Support Budget Change Proposal. The total time line for this process is noted below in Table 2.3.

If the intent is to have ownership in the facility, the process starts with the client preparing a COBCP as required by SAM Section 6818, Five-Year Capitalized Asset Plan as required by SAM Section 6820, and a CRUISE as noted above. Unless existing statute authorizes a capitalized lease (Government Code Section 14669), the lease requires specific authority. If the Budget Act will be used to provide that authority, a COBCP is required whether or not a capital outlay appropriation is needed. A department must also coordinate the CRUISE with the Support Budget Change Proposal. The time line for this process is noted below in Table 2.4 and 2.5.

Straight lease

Steps	Durations
Concept and documentation	2 to 5 months
Budget approval – Form 10	1 to 3 months
Site selection and acquisition: Assumes site is fully entitled.	0 months
Environmental: Assumes site is fully entitled resulting in no schedule impact. However, if a minor modification is required to the existing environmental report an addendum would need to be filed. This activity is concurrent with the Review/Evaluate Proposals/Execute Lease process.	0 to 3 months
Develop Request for Proposal	6 to 8 months
Request for Proposal	3 to 5 months
Review/Evaluate Proposals/Execute Lease	3 to 5 months
Design–Core and Shell	6 to 8 months
Design–Tenant Improvements	8 to 12 months
Construction	24 to 30 months
Close-out	3 to 12 months

Table 2.3

Given that some of the steps can be concurrent, the estimated time line from Site Selection through the end of Construction will be approximately four years. Please note this time line assumes that a fully entitled site is readily available and that little to no modifications are required with the existing Environmental Impact Report.

Build to Purchase Lease with Option(s)

Steps	Durations
Concept and documentation	2 to 5 months
Budget approval	1 to 3 months
Site selection and acquisition: Assumes site is fully entitled.	0 months
Environmental: Assumes site is fully entitled resulting in no schedule impact. However, if a minor modification is required to the existing environmental report an addendum would need to be filed. This activity is concurrent with the Review/Evaluate Proposals/Execute Lease process.	0 to 3 months
Develop Request for Proposal	6 to 8 months
Request for Proposal	5 to 8 months
Review/Evaluate Proposals/Execute Lease	4 to 6 months
Design – Core and Shell	6 to 8 months
Design – Tenant Improvements	8 to 12 months
Construction	24 to 30 months
Close-out	3 to 12 months

Table 2.4

Given that some of the steps can be concurrent, the estimated time line from Site Selection through the end of Construction will be four to five years.

Fully Amortizing Capital Lease

Steps	Durations
Concept and documentation	2 to 5 months
Budget approval	1 to 3 months
Site selection and acquisition: Assumes site is fully entitled.	0 months
Environmental: Assumes site is fully entitled resulting in no schedule impact. However, if a minor modification is required to the existing environmental report an addendum would need to be filed. This activity is concurrent with the Review/Evaluate Proposals/Execute Lease process.	0 to 3 months
Develop Request for Proposal	6 to 8 months
Request for Proposal	5 to 8 months
Review/Evaluate Proposals/Execute Lease	4 to 6 months
Design – Core and Shell	6 to 8 months

Design – Tenant Improvements	8 to 12 months
Construction	24 to 30 months
Close-out	3 to 12 months

Table 2.5

Given that some of the steps can be concurrent, the estimated time line from Site Selection through the end of Construction will be four to five years.

3.0 Planning Options

The state's selection of planning options for an office building project revolve around the procurement process and appropriate financing method as noted in Section 4 of this report. The selection is made in consideration of a myriad of factors, including but not limited to: market conditions, economic conditions, political considerations, desired project timing, project size, nature of the facility, tenant agency programs and stability, asset management opportunities, and potential risk factors. Regardless of the delivery method ultimately selected, the building specifications and requirements for the BOE's future headquarters will be consistent, meeting statutory requirements, codes and state policies. This includes, but is not limited to, the state's requirements for sustainability, energy efficiency and green.

Due to the sizeable cost of a project capable of handling the current BOE staffing levels and potential space for growth (either built now or future expansion), legislation will be required for a capital outlay delivered project and notification to the Legislature will be required for a lease delivered project. A lease purchase option may also be sought through the Budget Act. As stated previously, unless existing statute authorizes a capitalized lease (Government Code section 14669), the lease requires specific authority. If the Budget Act will be used to provide that authority, a COBCP will be required whether or not a capital outlay appropriation is needed.

If it is decided later that an alternative location should be pursued for BOE, DGS would conduct an economic analysis similar to what was completed for other large projects delivered by the state. The intent of conducting such an analysis is to evaluate the project based on similar criteria using reasonable assumptions and determine the most appropriate delivery method for a future project.

Coordination with the Department of Finance (DOF) and the Legislature will need to occur in the upcoming years to determine the appropriate funding and delivery method based on factors noted above.

While it may be too early to make any assumptions of where the BOE may eventually end up, future planning options would evaluate development criteria beyond the pure economics of the deal. Future analyses would need to include, but are not limited to: transportation management, transit alternatives, parking, energy efficiency and sustainability, horizontal vs. vertical construction, expandability, consolidation opportunities, administrative directives, statutory requirements, California Environmental Quality Act, and local governmental requirements and considerations. The analyses should also consider a phased approach vs. a complete build out. This would allow the current staff located at ancillary locations to begin the consolidation effort at the earliest opportunity.

4.0 Funding Recommendations or Procurement Alternatives and Financing

Financing Alternatives and Procurement Processes
The selection of an appropriate financing and procurement process method for an office building(s) project the size required for the BOE is a complicated process which considers many items and involves several entities besides the BOE and the DGS, including the DOF and the Legislature.

While it is too early to forecast the real estate and financial markets in 2022, it is not too early to understand the procurement alternatives and the potential funding opportunities associated with securing a building for the BOE.

There are two options for procurement that consist of a traditional Capital Outlay or Lease delivered. There are variations within both methods and a brief description of those variations is noted below.

Capital Outlay
Capital Outlay is typically the cash acquisition of property, if needed, and the funding of the design and construction of the project from three legislatively authorized fund sources. The three primary funding sources are the General Fund, special funds, and bond funds. Capital outlay projects funded from the General Fund and special funds on a pay-as-you-go basis are the most economical alternative. Lease Revenue Bonds are typically issued by the Public Works Board (PWB) to design, construct or acquire a facility to be leased to a state agency in return for lease rental payments which secure the debt service on the bonds. The lease rental payments are paid from the state agencies appropriate funding source, typically the General Fund or a special fund. Recent examples of projects funded from lease revenue bonds include the East End Complex, Central Plant, and the Department of Transportation District 3 Office Building. Cash appropriations of the General Fund are normally not used to fund major office building projects given the large dollar amounts involved. Another example of bond

funds are General Obligation bonds (GOB). The GOB's are generally tax exempt and backed by the full faith and credit of the state. Typically, these bonds are used to finance public projects of statewide consequence such as acquisition of land for state parks, higher education, K – 12, or the development of state prisons. The GOB's require either an initiative or Legislative approval and electorate approval may be difficult to obtain approval for state office building projects.

Capital Outlay delivery methods include Design-Bid-Build or Design-Build. Design-Bid-Build is the typical public works construction process utilized by the DGS. The steps for Design-Bid-Build are outlined in Section 2 of this report. Design-Build is an alternative delivery method used by the DGS but requires legislative or Budget language approval prior to implementing. Additional information on Design-Build is contained in Section 2 of this report.

Leasing

Various leasing strategies can be used to obtain office space. Leasing can be simultaneously viewed as both a possible procurement process and a financing alternative.

Straight Leasing

The DGS leases office facilities for state agencies for a variety of terms that rarely exceed a four-year firm term. The cycles of the real estate market and, in Sacramento, the state's demand for office space make continuous short-term leasing the most expensive of the state's housing alternatives. There is no equity buildup to the state for rental payment and usually no way to recover any residual value from improvements paid for by the state. Long-term straight leasing has been used to secure office space, but requires special notification to and approval by the Legislature. It can be an effective method of procuring long-term office space when ownership is not sought.

Build to Purchase Lease with Option (also known as Lease with a Purchase Option)

This financing alternative provides the state with the option of purchasing a property it is occupying. Using this method, the state pre-negotiates the purchase option price. The state has the option to exercise its right to purchase or not. The owner bases the rental and purchase option price on the cost and a competitive real estate market. The lessor adds overhead and profit into the option price. A purchase option's economic advantage to the state is always evaluated prior to it being exercised. The Legislature has authorized purchase option authority for the DGS on the BOE, the Department of Justice, and the California Environmental Protection Agency buildings in Sacramento. It is usually most economical to exercise a purchase opportunity early in the lease term.

Fully Amortizing Capital Lease (also known as Lease Purchase Amortization)
This method of acquiring state facilities allows the state to pay for projects over a specified lease term with title passing to the state at the end of the lease. It costs the state more compared to revenue bond financing because the developer must recover through the rent, property taxes, insurance, higher loan costs, and a reasonable profit and overhead allowance. State purchases are projected over a specified period through lease payments, similar to the 30-year mortgage on a home. The lessor may be a private developer or a public entity (such as PERS). Property taxes are included unless the lessor is a tax-exempt entity.

5.0 Recommendations for Statutory Authorizations

The following items summarize the statutory authorization necessary to construct a facility for the BOE. The authority is dependent on a final decision regarding the delivery method.

Seek legislation to construct a project for the BOE utilizing existing delivery method
This legislation would be modeled after Department of Veteran's Affairs authority under Senate Bill 630, (Chapter 154, Statutes of 2007) or the DGS authority for the Capital Area East End Complex under Government Code Section 8169.5 (Chapter 761, Statutes of 1997 (SB 1270, Johnston)).

Seek legislation to construct a project for the BOE utilizing new delivery method

Construction Manager at Risk (CMAR)
Construct a new building using CMAR. This procurement method would be modeled after the Judicial Council, Administrative Office of the Courts (AOC). The AOC utilizes a competitive selection process which factors in qualitative criteria, such as the firm's experience, as well as the contractor's fee. The CMAR is retained early in the project for preconstruction services. Following a competitive bid for all subcontracts and the approval to award, the CMAR becomes the general contractor for the project. For this competitive selection of the CMAR, multiple submissions are typically received. Interviews are conducted of the five most qualified firms, from which CMAR is selected.

CMAR can be defined as a competitively bid contract by a department with an individual, partnership, joint venture, corporation, or other recognized legal entity, which is appropriately licensed in this state and which guarantees the cost of a project and furnishes construction management services, including, but not limited to, preparation and coordination of bid packages, scheduling, cost control, value engineering, evaluation, preconstruction services, and construction administration.

6.0 Potential Future Uses of 450 N Street

There are several options for the future use of 450 N. Street. Given the projected growth of the BOE and need to consolidate their operations, remaining at 450 N. Street is not a long-term option.

Considerations beyond those noted within **Section 3.0 Planning Options** of the report should include how the 450 N Street building plays into the mix of existing state facilities and existing state-owned land located in and around the Capitol core. This also includes those tenants (both currently located in and outside the core) looking to consolidate in the Capitol core. Given the continual need to keep a balanced approach of state-owned and private leased office space as well as the need to maintain, renovate, and or construct new office space in and around the core, the DGS will need to analyze its property portfolio such that it maximizes the use of the state's regional portfolio of properties for its greatest value and best use. Any decision that involves the 450 N Street building should include an analysis of these items with the ultimate goal of providing a safe, productive, and environmentally friendly work environment for its employees at a good value to the state.

There are a couple of options related to the future use of 450 N Street. One option would be for the state to continue ownership of the building, but would backfill the building with tenants other than the BOE. Prior to re-occupying the building, all major renovation activities which impact occupancy would be completed, similar to the process used in renovating Office Buildings 8 and 9 or Library and Courts. This would allow the building to stay in the state's portfolio of office buildings Prospective backfill tenants, along with their current location and square footage assignments are noted below and in the tables at the end of this section. Another option would be to sell the building upon defeasance of the bonds.

Regardless of the prospective backfill tenants, the building will require improvements and upgrades prior to reintroducing tenants back into the building. Depending on the improvements and upgrades determined, it is not unreasonable for the building to be vacated for a period of 12 to 24 months, much like Office Buildings (OB) 8 and 9, as well as Stanley Mosk Library and Courts Building.

Currently, the DGS approves lease firm terms up to four years; however, on a case-by-case basis, there could be potential for a longer firm term. In order to coordinate tenant leases with a relocation of the BOE, the DGS must consider the leases of all prospective backfill tenants such that their terms coincide with the BOE's potential move.

Department of General Services

The tenant information below can only be considered speculative given the time remaining before the bonds are retired and the improvements to be made at the 450 N Street building. It is highly probable that other agencies or departments may come into consideration and those listed below will fall out of contention as prospective tenants. With modifications to the current terms of their leases, prospective backfill tenants could include the following departments / agencies:

- Department of Corrections and Rehabilitation (CDCR) occupies approximately 899,359 useable square feet of office space in 17 separate locations.
- Natural Resources Agency and departments located in the Resources Building* occupy 487,061 useable square feet of space.
- The DGS occupies 376,204 useable square feet of office space in three different locations.

**Relocation of the tenants currently housed at the Resources Building would allow a full renovation of the Resources Building.*

The state leases over 7 million net square feet of office space in the Sacramento County area, depending on the timing and or funding of a project, departments which have the ability to be consolidated would be analyzed to determine the best fit as well as what is in the best interest for the state.

The following two potential tenants could backfill space, if any of the departments / agencies listed above do not relocate:

- California Human Resources (CalHR)
- Housing and Community Development (HCD)

AGENCY	ADDRESS	SQ. FT.	FIRM TERM	END TERM
CDCR	1515 Street	304,715	5/31/14	3/31/18
CDCR	1600 K Street	23,310	7/31/13	1/31/17
CDCR	1515 K Street	32,519	1/31/15	1/31/19
CDCR	1900, 1920,1940,&1960 Alabama Ave.	96,000	6/30/2007	6/30/11
CDCR	10111 Old Placerville Rd.	25,354	4/30/2010	4/30/14
CDCR	10961 Sun Center Dr.	41,778	4/30/2011	4/30/15
CDCR	10111 Old Placerville Rd.	14,022	6/30/2011	2/28/15
CDCR	2015 Aerojet Rd.	74,110	7/31/2011	1/31/12
CDCR	9800 Old Placerville Rd.	16,100	7/31/2012	7/31/16
CDCR	9738 Lincoln Village Dr.	16,755	8/31/2012	8/31/14

CDCR	9838 Old Placerville Rd.	133,108	9/30/2012	9/30/16
CDCR	10000 Goethe Rd.	117,988	12/31/2012	12/31/16
CDCR	3336 Bradshaw Rd.	3,600	10/31/2014	10/31/18
	Total	**899,359**		

Table 6.1

AGENCY	ADDRESS	SQ.FT.	FIRM TERM	
DWR	1416 Ninth Street	273,436	State Owned	
DPR	1416 Ninth Street	101,979	State Owned	
CDF	1416 Ninth Street	41,701	State Owned	
DFG	1416 Ninth Street	62,875	State Owned	
Resources Agency	1416 Ninth Street	7,070	State Owned	
		487,061		

Table 6.2

AGENCY	ADDRESS	SQ.FT.	FIRM TERM	END TERM
DGS	707 Third Street	319,484	10/31/16	5/11/19
DGS	1102 Q Street	35,376	11/30/13	5/31/17
DGS	2349 Gateway Oaks Dr	21,344	3/31/11	11/30/18
		376,204		

Table 6.3

AGENCY	ADDRESS	SQ.FT.	FIRM TERM	END TERM
Controller	300 Capitol Mall	133,666	3/31/16	1/31/19
Controller	300 Capitol Mall	19,869	9/30/14	4/30/17
Controller	300 Capitol Mall	25,692	5/31/14	12/31/16
		179,227		

Table 6.4

AGENCY	ADDRESS	SQ.FT.	FIRM TERM	END TERM
Finance	2000 Evergreen Street	57,916	1/1/12	10/31/15
Finance	2000 Evergreen Street	17,972	1/1/12	10/31/15
Finance	915 L Street	81,178	3/31/14	3/31/18
Finance	915 L Street	1,451	3/31/14	3/31/18
		158,517		

Table 6.5

AGENCY	ADDRESS	SQ. FT.	FIRM TERM	END TERM
Transportation	1727 30th Street	123,736	8/31/13	6/30/17
Transportation	1500 Fifth Street	25,248	3/31/14	3/31/18
Transportation	1823 14th Street	27,366	8/31/08	8/31/13

Transportation	1801 30th Street	160,900	8/31/13	6/30/17
Transportation	1820 Alhambra Blvd	87,423	8/31/13	6/30/17
Transportation	1616 29th Street	18,101	6/30/12	6/30/14
Transportation	1820 Alhambra Blvd	1,463	8/31/13	6/30/17
	Total	**444,237**		

Table 6.6

AGENCY	ADDRESS	SQ.FT.	FIRM TERM	END TERM
CalHR	1515 S Street	39,564	1/31/17	1/31/21
		39,564		

Table 6.7

AGENCY	ADDRESS	SQ.FT.	FIRM TERM	END TERM
HCD	2020 Gateway Tower	101,000	1/1/18	1/31/22
		101,000		

Table 6.8

	Address	Square Footage	[1]Price Per Sq Ft	Current Cost Per Month	[2]Cost Per Year	Staffing Projection FY 12/13	Staffing Projection FY 13/14	Staffing Projection FY 14/15	Staffing Projection FY 15/16	Staffing Projection FY 16/17
Headquarters	450 N Street Sacramento, CA 95814	449,138	$3.10	$1,392,327.80	$16,707,933.00	2134	2198	2264	2332	2402
Promenade	160 Promenade Cir Sacramento, CA 95834	60,989	$2.31	$141,120.56	$1,689,217.42	325	335	345	355	366
Capitol Mall	621 Capitol Mall Sacramento, CA 95814	61,544	$3.16	$194,262.86	$2,331,154.32	326	336	346	356	367
[3]Motor Carrier	1030 Riverside Pkwy W. Sacramento, CA 95605	14,274	$1.95	$27,905.00	$334,047.00	65	67	69	71	73
[4]Taxpayer Records Unit (TRU)	3600 Industrial Blvd W Sacramento, CA 95691	21,781	$0.72	$15,770.82	$192,290.08	30	30	0	0	0

[1]Price per square foot is rounded to the nearest cent as of 2/1/2013
[2]Annual cost is the actual 2012/2013 cost per the lease, which includes rent bumps.
[3]The Motor Carrier Unit will not relocate with the Headquarters.
[4]The TRU warehouse will be vacated in 2015 and all positions will be absorbed back into the Headquarters building.