

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: August 2, 2010  
POSITION: Oppose  
SPONSOR: State Board of Equalization

BILL NUMBER: AB 151  
AUTHOR: D. Jones

**BILL SUMMARY: Board of Equalization: Headquarters Building**

Under current law, the Department of General Services (DGS) is authorized to acquire title to real property in the name of the state, and to construct, lease, or transfer state property, when authorized by the Legislature.

This bill would:

- Direct DGS to investigate whether the property at 450 N Street, Sacramento, currently occupied by the Board of Equalization (BOE) as BOE headquarters should be sold or backfilled with another state tenant or tenants after BOE vacates the premises.
- Authorize BOE to vacate any of the several properties occupied by BOE throughout the state, and to enter into leases and contracts independent of any oversight by any other state agency.
- Relieve BOE of any obligation to pay rent or to maintain any facility that it vacates because the facility, in its sole judgment, no longer meets the business needs of BOE.
- Specify that DGS is authorized to dispose of the 450 N Street property if the Director determines the sale of the property is in the best interest of the state.
- State the intent of the Legislature to allow BOE to redirect funds from the BOE support budget in the Budget Act of 2010 in order to offset the reasonable costs of implementing the provisions of this bill.

**SUMMARY OF CHANGES**

Amendments to this bill since our analysis of the January 1, 2010 version would do the following:

- Delete all previous provisions of the bill.
- Vest BOE with the authority to vacate any property and to hire or lease alternative properties if, in its sole judgment, a current facility no longer meets BOE's business needs.
- Delete a requirement of current law that DGS approve any relocation of BOE facilities.
- Direct DGS to report to the Legislature, not later than April 1, 2011, on whether the headquarters building should be sold or backfilled with a state tenant or tenants.
- Relieve BOE of the obligation to pay rent on any state-owned facility it vacates because BOE determines the facility no longer meets BOE's business needs.
- Permit BOE to redirect some unquantified portion of its 2010-11 operating budget to purposes related to the relocation of BOE facilities.

Analyst/Principal (0762) C. Hill	Date	Program Budget Manager Mark Hill	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

**BILL ANALYSIS** Form DF-43 (Rev 03/95 Buff)

D. Jones

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**FISCAL SUMMARY**

Finance estimates that the investigation contemplated by this bill would cost between \$250,000 and \$500,000. Finance concurs with DGS estimates that the cost of relocating BOE to an alternate facility would be \$24 million over four years, and Finance estimates the net present value of the increased lease payments, assuming a 20-year lease, in a new facility would approximate \$100 million. Fifty seven percent of those costs would be General Fund.

During the DGS study of the alternatives mandated by this bill, uncertainty as to whether the building would be retained by the state, and/or vacated by BOE would likely preclude the sale of bonds needed to retire the present \$92 million PMIB loan used to acquire the property. Finance estimates the principal balance of that loan would increase at least \$4 million over the four year period required to relocate BOE, during which bonds could not be sold. That one-year loan was funded in February 2007, and has been extended three times. Should PMIB elect to call the loan, repayment would become an obligation of the state General Fund.

Provisions of this bill permitting BOE to enter into complex real estate transactions without DGS oversight could be a distraction from BOE's core tax collection mission. BOE presently has no commercial real estate expertise in-house. To the extent BOE would be required to redirect resources to develop that competency, both revenue loss and General Fund impact could occur.

Authorizing BOE to vacate properties with no obligation to continue to fund rent and maintenance for the vacated properties would shift the costs of that rent and maintenance to the state General Fund. Finance concurs with DGS estimates that costs arising from this provision, not including costs attributable to vacating the headquarters building, could be \$28 million annually.

To the extent that BOE redirects a portion of its 2010-11 support budget to activities related to the relocation of BOE staff, revenue loss impacting both General and Special Fund revenue may occur.

**COMMENTS**

Finance opposes this bill for the following reasons:

- This bill would result in significant General Fund costs of at least \$85 million, and which have the potential to go tens of millions of dollars higher.
- The fiscal condition of the state precludes any relocation of BOE in the foreseeable future.
- This bill would strip DGS of its oversight role of BOE real estate transactions.
- BOE presently does not possess the in-house expertise required to undertake large and complex real estate transactions.
- Provisions of this bill that could delay or impede the sale of bonds to repay the outstanding \$92 million PMIB loan could result in that loan becoming an obligation of the state General Fund.
- The mold and water intrusion issues that have troubled the building in recent years will be fully remediated by early 2011. Thus, there is no need for BOE to vacate this property, which is adequately suited to meet BOE's business needs.

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**ANALYSIS****A. Programmatic Analysis**

Under current law, the DGS is authorized to acquire title to real property in the name of the state, and to construct, lease, or transfer state property, when authorized by the Legislature.

In 1992 DGS, on behalf of the state, entered into a 30-year lease-purchase agreement to acquire the 24-story 610,000 square foot property located at 450 N Street as a headquarters building for BOE. In 2007, DGS accelerated the payments under the terms of the lease-purchase agreement and acquired the fee, encumbered by a then \$78 million PMIB loan.

The building has been subject to a number of issues related to water intrusion since the late 1990s. Extensive repair of the exterior window wall was completed in 2006. Several years of water intrusion caused extensive mold infestation which is currently being remediated. The total costs of the mold remediation and window wall repairs will exceed \$45 million.

In addition to the water intrusion and mold issues, several building systems require extensive renovation and/or replacement because of the building's age. A 2009 survey of the building commissioned by DGS recommended repairs and upgrades which DGS estimates will cost \$18 million over the next five years.

The building is configured to accommodate 2,200 employees. At present, 2,900 employees are assigned to the headquarters facility. Funding was approved in the 2009 Budget Act to move 600 employees to new quarters.

The issues of overcrowding and workforce disruption attendant to the remediation of the water intrusion and mold problems have resulted in a BOE vote to relocate the Board's headquarters.

This bill would:

- Direct DGS to investigate whether the property at 450 N Street, Sacramento, currently occupied by the BOE as BOE headquarters should be sold or backfilled with another state tenant or tenants after BOE vacates the premises. DGS would be required to report to the Legislature as to the preferred alternative not later than April 1, 2011.
- Authorize BOE to vacate any of the several properties occupied by BOE throughout the state, and to enter into leases and contracts independent of any oversight by any other state agency or official.
- Relieve BOE of any obligation to pay rent or to maintain any facility that it vacates because the facility, in its sole judgment, no longer meets the business needs of BOE.
- Specify that DGS is authorized to dispose of the 450 N Street property if the Director determines the sale of the property is in the best interest of the state.
- State the intent of the Legislature to allow BOE to redirect funds from the BOE support budget in the Budget Act of 2010 in order to offset the reasonable costs of implementing the provisions of this bill.

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B. Fiscal Analysis

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Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)							Fund Code
	LA	(Dollars in Thousands)							
	CO	PROP	2010-2011		2011-2012		2012-2013		
	RV	98	FC	FC	FC	FC			
0860/Equalization	SO	No		-----	See Fiscal Analysis	-----		0001	
1760/Dept Gen Svc	SO	No		-----	See Fiscal Analysis	-----		0001	