

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: Original
POSITION: Oppose
SPONSOR: Board of Equalization

BILL NUMBER: AB 1143
AUTHOR: R. Dickinson

BILL SUMMARY: Director of General Services: Authority

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 authorize the Department of General Services with the consent of the Board of Equalization (BOE), to enter into a lease, lease-purchase agreement, or lease with an option to purchase a build-to-suit facility in the Sacramento area for purposes of consolidating the BOE Headquarters operations into one central location.

FISCAL SUMMARY

Finance estimates that the development of proposals, feasibility analyses, and site searches 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. Should the state retain the 450 N Street building, DGS estimates the cost to backfill the facility with state tenants would approximate \$40 million. We also note that BOE, until the building is backfilled with new tenants or sold, would be obliged to continue to pay rent and maintenance costs. Fifty-seven percent of those costs, approximately \$100 million, would be General Fund.

The State Public Works Board (PWB) has begun the process to sell bonds to repay the outstanding Pooled Money Investment Board (PMIB) loan that was used to acquire the facility at 450 N Street. 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 complicate the sale of bonds, resulting in unknown increased costs to market the bonds. Furthermore, current bond market conditions generally require a 10-year prohibition on defeasing or retiring lease revenue bonds. If the DGS is to contemplate selling the building, any bonds issued by the PWB would need to include an option to call the bonds early, resulting in additional unknown costs to the state.

COMMENTS

Finance opposes this bill for the following reasons:

- This bill would result in significant General Fund costs of at least \$100 million in relocation, backfill and rental expenses as well as increased rent on a new facility, and 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.
Provisions of this bill would complicate the PWB's ability to sell the bonds necessary to repay the outstanding \$92 million PMIB loan, resulting in additional unknown but potentially significant costs.

Analyst/Principal Date Program Budget Manager Date
(0762) C. Hill Mark Hill

Department Deputy Director Date

Governor's Office: By: Date: Position Approved
Position Disapproved

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- The mold and water intrusion issues that have troubled the building in recent years will be fully remediated this year, and capacity issues have been addressed by the relocation of 600 BOE staff in 2008-09, and the relocation of the BOE records storage facility as well as the offices of the BOE board members and their staff. 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 property, 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 mold growth 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, approximately 2,300 employees are assigned to the building. 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. We note that this vote imposes no legal obligations on the Administration or the Legislature.

This bill would authorize the Department of General Services, with the consent of BOE, to enter into a lease, lease-purchase agreement, or lease with an option to purchase a build-to-suit facility in the Sacramento area for purposes of consolidating the BOE Headquarters operations into one central location. Specifically, this bill would:

- Direct DGS to develop terms and conditions for leases or agreements to solicit bids for a BOE Headquarters facility. Any lease or bid document would be subject to the prior approval of Finance.
- Require DGS to provide a 30-day notice to the chairpersons of both fiscal committees of the Legislature and the Joint Legislative Budget Committee prior to executing any agreement developed pursuant to this bill.
- Require DGS be reimbursed its reasonable costs arising from this bill.

B. Fiscal Analysis

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. Should the state retain the building, DGS estimates the cost to backfill the facility with state tenants would approximate \$40 million. We also note that BOE, until the building is backfilled with new tenants or

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sold, would be obliged to continue to pay rent and maintenance costs. Fifty-seven percent of those costs, approximately \$100 million, would be General Fund.

The State Public Works Board (PWB) has begun the process to sell bonds to repay the outstanding Pooled Money Investment Board (PMIB) loan that was used to acquire the current facility. 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 complicate the sale of bonds, resulting in unknown increased costs to market the bonds. Furthermore, if the DGS is to contemplate selling the building, any bonds issued by the PWB, which would as a matter of standard industry custom and practice include a 10-year prohibition on prepayment, would need to include an option to call the bonds early, resulting in additional unknown costs to the state.

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