

**STATE BOARD OF EQUALIZATION
FISCAL YEAR 2011-12
BUDGET CHANGE PROPOSAL No. XX**

TITLE OF PROPOSED CHANGE:

Board of Equalization – Offices of the Future

SUMMARY OF PROPOSED CHANGES:

The Board of Equalization (BOE) requests a budget augmentation to begin the journey to relocate our Headquarters operations to a facility that meets BOE's immediate and long-term business needs. Simultaneously, BOE is conducting a statewide review of district and branch offices to determine the optimum physical footprint of these offices to ensure taxpayer access to services while reducing rental costs in some areas. The San Diego district and San Marcos branch office will serve as the pilot to migrate to BOE's Office of the Future. The BOE's high level goals for these moves are:

Headquarters:

- Meet the business operational needs of BOE
- Eliminate inefficiencies of supporting multiple annex locations
- To accommodate future short-term as well as long-term growth
- Avoid or reduce additional repair costs
- Protect the health and safety of employees

San Diego/San Marcos "Office of the Future" Pilot

- Meet the business operational needs of BOE
- Ensure taxpayer access to services
- Protect the health and safety of employees

The following is a summary of the funding requests:

	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17 and Ongoing
Headquarters						
General Fund	\$81,000	\$81,000	\$81,000	\$8,832,000	\$6,941,000	\$395,000
Special Funds	29,000	29,000	29,000	3,498,000	2,746,000	155,000
Reimbursements	40,000	40,000	40,000	4,470,000	3,513,000	200,000
Headquarters Total	\$150,000	\$150,000	\$150,000	\$16,800,000	\$13,200,000	\$750,000
San Diego\San Marcos						
General Fund	\$793,000	\$580,000	\$472,000	\$224,000	\$224,000	\$224,000
Reimbursements	356,000	260,000	212,000	101,000	101,000	101,000
San Diego\SM Total	\$1,149,000	\$840,000	\$684,000	\$325,000	\$325,000	\$325,000
GRAND TOTAL						
General Fund	\$874,000	\$661,000	\$553,000	\$9,056,000	\$7,165,000	\$619,000
Special Funds	29,000	29,000	29,000	3,498,000	2,746,000	155,000
Reimbursements	396,000	300,000	252,000	4,571,000	3,614,000	301,000
GRAND TOTAL	\$1,299,000	\$990,000	\$834,000	\$17,125,000	\$13,525,000	\$1,075,000

**STATE BOARD OF EQUALIZATION
Fiscal Year 2011-12
Board of Equalization – Offices of the Future
Headquarters and San Diego/San Marcos Offices**

A. Nature of Request

The Board of Equalization (BOE) requests funding to begin the journey to relocate our Headquarters operations to a facility that meets the BOE's immediate and long-term business needs. Simultaneously, BOE is conducting a statewide review of district and branch offices to determine the optimum physical footprint of these offices to ensure taxpayer access to services while reducing rental costs in some areas. The San Diego district and San Marcos branch office will serve as the pilot to transition to BOE's Office of the Future. These changes are necessary to ensure the health and safety of the BOE employees and to continue to effectively collect and process over \$48 billion in revenue annually.

In order to facilitate these changes, BOE has sponsored legislation (AB-151) that will enable the BOE to relocate to a new headquarters facility and enter into lease agreements without the Department of General Services (DGS) approval. This multi-year Budget Change Proposal will serve as a road map to secure the needed funding for BOE's campus of the future. To address business operational needs for Headquarters, all functions will be consolidated in a campus setting – the most efficient and effective way to operate.

The San Diego and San Marcos offices will be reconfigured into a smaller customer service office with a public counter in a high traffic area, plus a larger office in an outlying area that will house staff who perform tax audit and collection work, but do not require a public service counter. Once this model is implemented statewide, BOE expects to realize savings from a change in our service delivery model.

B. Background/History

Headquarters - Sacramento

The BOE Headquarters building is located at 450 N Street. Construction of the building began in 1991 and was completed in January 1993. It is a twenty-four story office facility which includes a four level parking structure, ground floor cafeteria and a children's daycare center. It is owned by the State of California, and managed and maintained by DGS. The BOE moved their headquarters operations into the building in February 1993 and currently rents from DGS.

The building no longer meets the business needs of BOE and the on-going construction in the Headquarters facility continues to pose health and safety risks for the employees while costing the State of California millions of dollars in repair-related expenses. The DGS anticipates the remediation project will be completed in February 2011. As a result of the project, all future building maintenance must be performed under special remediation protocols. These protocols generally require containments to be constructed when any water event or needed repair/renovation requires that drywall be cut, baseboards be removed, or other building repairs. In addition, the building will require on-going indoor air

quality testing. This operation will be a continuous disruption to BOE staff and BOE's core business as a revenue collection agency.

The BOE has identified lost productivity estimated at \$21.6 million annually as a result of the remediation project. The State of California and other jurisdictions reliant on revenue collected by the BOE would be better served with BOE in a campus setting that is sustainably designed and operated.

Office of the Future - San Diego District and San Marcos Branch Office Consolidation

The BOE's current configuration offers a public service counter at both the San Diego and San Marcos offices. The San Diego district office is located in the State Building at 1350 Front Street, which DGS is in the process of selling. The San Marcos branch office is located in a privately owned building at 334 Via Vera Cruz. The firm term of this lease expired in April 2010, which provides an excellent opportunity to reconfigure these two offices.

The San Diego State building cannot be modified to meet BOE's new service delivery model or our existing security requirements. Additionally, it poses health and safety concerns for BOE employees as the building was constructed in 1961 with what is now known to be hazardous materials (asbestos and lead based paint) and is not in compliance with the current Americans with Disabilities Act (ADA). Due to the hazardous materials, routine facility maintenance and repair needed to meet the business operations needs of BOE and to protect the health and safety of employees is very difficult, if not impossible. The building is owned by the State of California, and managed and maintained by DGS. The BOE rents only a small portion (approx. 18,000 square feet) of the building.

Insufficient to meet BOE's business needs

Headquarters – Sacramento

Prior to May 2010, approximately 2,900 BOE positions were assigned to the Headquarters, 450 N Street building, 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. The BOE has been forced to move approximately one-fourth of the Headquarters operations to annex locations, which disjoins staff and disrupts business functions; and, is not ideal for an efficient, effective organization.

To address overcrowding issues, BOE permanently relocated 386 employees and over one million taxpayer records to three annex locations, two in West Sacramento and one in downtown Sacramento. In December 2010, BOE plans to move an additional 312 revenue generating employees to a fourth annex location in Sacramento. The table on the next page identifies the BOE programs and their annex locations:

BOE HQ Program	Employees	Move	Annex
Taxpayer Records	32	August 2008 (Permanent)	3600 Industrial Blvd. W. Sacramento
Motor Carrier/IFTA	64	May 2010 (Permanent)	1030 Riverside W. Sacramento

BOE Program for Office of the Future			
Legal Department Board Proceedings External Affairs – Web and Media Design	290	July 2010	621 Capitol Sacramento
Tax Collection Programs External Affairs – Call Center Admin Training	312	December 2010 (Pending)	160 Promenade Sacramento
450 N Street	2,200	FYs 2014 -16	TBD
TOTAL	2,802		

The addition of the annex facilities has provided room to house the 700 employees that will not fit in the Headquarters building, but even these facilities are at maximum capacity, leaving no room for growth. Assuming modest growth of 96 positions per year over the next five years, there will be inadequate space for these employees. If additional tax or fee programs are mandated, approximately 12 months would be needed to locate facilities to house the new staff, delaying program implementation. Given the critical, revenue generating work performed by BOE, it needs a facility that can house all Headquarters staff, with reasonable room for growth, similar to the Franchise Tax Board (FTB) campus.

The BOE is responsible for the administration and collection of taxes and fees that provide approximately 35 percent of annual revenue for state government, and essential funding for counties, cities, and special districts. In fiscal year 2008-09, BOE collected revenues totaling \$48.4 billion. Operating a Headquarters function from multiple sites creates inefficiencies that ultimately cost the State and thereby affects its net revenue stream. Annual administrative operational costs (e.g., mail service runs, lost productivity for travel to meetings, computer maintenance, etc.) have increased by \$127,000 alone in the last year.

The BOE must consolidate into a sustainably designed campus where a culture of service will prosper. The BOE professionals are currently located in leased office annexes and are cut-off from one another. By consolidating operations in a campus setting, a more effective organization will emerge, similar to the FTB complex dedicated to serving all Californians. The BOE will be better served in a campus 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 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 is relatively flat with employment figures falling. This unique combination of a slowing real estate market and the availability of viable redevelopment areas creates a strategic opportunity for the State to potentially acquire properties before future transit-oriented, mixed-use centers become too costly or unavailable. (Source DGS State Office Planning Study December 2008)

Office of the Future - San Diego District and San Marcos Branch Office Consolidation

The BOE plans to change its service delivery model in the San Diego area by reconfiguring and consolidating the San Diego and San Marcos offices. There will be two locations: one being a Taxpayer Customer Service Center geared to providing easier access for the constituents in the area; and, the second being office space for staff who perform tax audit and collection work but do not require a public counter. The goal is to reduce costs and increase efficiencies by locating the second group in an outlying area with reduced rental rates. The BOE is in the process of revising our space planning requirements resulting in long-term efficiencies for district office settings resulting in a smaller public lobby footprint while maintaining a reasonable level of customer service that allows for the integration of technology improvements. Audit and collection staff will be housed in smaller and lower cost facilities with many field auditors utilizing mobile and telework opportunities. This will reduce the need for high-cost office space in downtown or other premium cost areas, such as San Diego.

As the plan to transition to the office of the future evolves, the San Diego and San Marcos offices will serve as the pilot. There are 21 BOE Sales and use Tax district and branch offices with public service counters located throughout the State for which the BOE pays over \$10 million annually in lease costs. When leases are up for renewal, BOE will take into consideration on a case-by-case basis where public offices will be located and which back-office functions could be centralized or regionalized. (Exhibit I)

State has incurred expenses and will continue to do so

Headquarters – Sacramento

Repairs and remediation to the 450 N Street building due to original construction deficiencies and extensive water intrusion are continuous. Estimates to repair the building are in the millions of dollars with complete costs unknown. The California State Board of Equalization Building Assessment Final Report of February 25, 2009, prepared by DGS' consultant LaCroix Davis, LLC., (Exhibit II) states that future work will require special handling and instructed DGS to prepare special maintenance protocols in order to safely manage the building.

As DGS' current repair strategy calls for "entombed mold" to remain in the building, on-going air quality monitoring will be needed at a cost of approximately \$20,000 per year for a building of this size. The BOE Building Infrastructure Study Final Report dated May 19, 2009, (Exhibit III) prepared by DGS' consultant Stantec Architecture, Inc., stated that the report was intended to be a high level rapid visual inspection of the 450 N Street building. Stantec recommends repairs including structural, electrical, mechanical, fire and life safety and façade maintenance. DGS has not provided a timeline, final costs estimates or funding source for these repairs. The Stantec report also indicated that the curtain wall window system, which was repaired between 2005-2007, requires an on-going maintenance schedule which includes gasket and sealant repair and replacement starting as early as 2014 or window failure is possible. This project is not currently funded. DGS is working to

develop the maintenance protocol and cost estimates. Additionally, due to serious issues, the decision was made to modernize the elevators at a cost of approximately \$2.3 million. The project began in April 2010 and is expected to take about 18 months.

From April 2005 through February 2011, the State has and will continue to incur significant costs related to the 450 N Street building including:

- Curtain Wall Project at approximately \$15.5 million
- Water intrusion remediation work at DGS/BOE's estimated cost of \$29.6 million
- Elevator modernization project at \$2.3 million
- Stantec report hard construction portion of the infrastructure repair estimates at \$7.8 million; soft costs estimated at 25% of the project or \$2.2 million

As of August 1, 2010, the total preliminary estimate for repairs was approximately \$41.9 million. When added to the Curtain Wall Project, they total over \$57.4 million. The State will pay to repair the building. These costs are likely to rise as they are preliminary estimates and actual project completion dates are unknown at this time. (Exhibit IV)

Health and Safety Concerns and Workers Compensation Claims

Headquarters – Sacramento

The health and safety of employees working in the 450 N Street building is the top priority for BOE management, Unions, and the employees themselves. As shown in Exhibit V, from 1997 to the present, nine studies of the 450 N Street building have been conducted. Virtually every study has identified construction deficiencies in the building which impact functions and require additional repair or specialized maintenance protocols. The elevators in the building are unreliable and regularly entrap BOE employees or injure them when they drop unexpectedly. While the function of the elevators has improved due to an aggressive repair protocol, they still require renovation. In March 2010, ThyssenKrupp was awarded a \$2 million contract by the DGS for BOE Elevator modernization project. The project requires that two elevators are placed out of service at a time, one from the high-rise elevator bank and one from the low-rise side. The project has an estimated completion date of October 2011; however, the work on the first set of elevators has taken longer than the original schedule which is typical in the 450 N Street building.

The series of building related events that BOE employees have had to endure are outlined in Exhibit VI. The Union has filed a health and safety grievance regarding the Headquarters building which is pending resolution at the Department of Personnel Administration. In addition, BOE continues to have Workers' Compensation (WC) claims filed at the rate of approximately four new claims per month. As of July 31, 2010, 103 claims have been filed; 81 related to indoor air quality and 21 related to the elevators. The latest elevator claim was filed in July 2010.

San Diego District Office

As with the Headquarters facility, the health and safety of employees in the San Diego district office is a top priority. From 2007 to August 2010 there have been seven Workers' Compensation claims filed at the San Diego district office related to the building. Many of these claims are due to aged carpet that has torn. Attempts to spot patch the carpet with duct tape has not kept employees from tripping and falling. Due to the hazardous materials

(asbestos and lead based paint) used to construct the building, simple and routine repairs or modifications for the health and safety of employees are difficult if not impossible. Two separate sewer related events have taken place. In June 2007, a raw sewage pipe failed causing a significant sewage leak in the main lobby and in staff offices. The damage required a hazardous waste abatement firm to disinfect areas of the building for one day. Then in July 2009, again due to sewer related problems where the water had to be turned off to conduct repairs, employees were unable to work in the building for approximately two days and portable toilets were required until the plumbing could be repaired.

C. State Level Considerations

The BOE is charged by the State Constitution and by statute to oversee the property tax assessment practices of 58 county assessors, assess and allocate the property values of railroads and specified utilities, administer the State's sales and use tax, fuel, alcohol, and tobacco taxes as well as collect fees to fund numerous specific state programs. Efficient and effective administration of these tax and fee programs has resulted in the collection of 34 percent of the State's annual revenue, over \$48 billion in FY 2008/09.

Every employer is required by law (California Labor Code) to provide a safe and healthy workplace for their employees. BOE has worked diligently to meet this requirement; however, the on-going issues within the 450 N Street building and the San Diego district office present risk factors over which BOE has little or no control.

As the BOE is responsible for generating one-third of the State's revenues, loss of productivity equals lost revenue for the State. Based on the 'swing space' approach instituted by DGS during the planned 18-month remediation project, BOE is estimating a loss of productivity of 111 personnel years at a cost of \$8,325,000. As many of these positions are revenue generating, BOE also estimates a revenue loss to the State of California of approximately \$21.6 million due to the workload disruptions. When taken in total, the estimated price-tag for the State of California is \$61.5 million.

By consolidating Headquarters operations in a campus setting, a more effective and streamlined organization will emerge similar to the FTB. The BOE will be better served in a campus that meets sustainable design principles, provides a working environment that is among the best in the State, promotes recruitment and retention of staff for California as a revenue collection agency, and allows staff to focus on critical revenue generating activities.

Based upon Government Code (GC) Section 8169.6, DGS has been authorized to develop 1.4 million square feet of office space known as the West End Office Complex. As BOE vacates the 450 N Street building, DGS may then acquire approximately 640,000 square feet of existing state office space by utilizing the 450 N Street building as existing developed property per the requirements of GC 8169.6; thereby reducing this space need to approximately 760,000 square feet, which is much more feasible to acquire.

D. Justification and Analysis of All Feasible Alternatives

These alternatives request the relocation of approximately 2,800 BOE employees from the Headquarters building and annex locations. The 96 staff located in West Sacramento will remain in those annex locations due to business needs. The employees in the San Diego and San Marcos offices will be relocated to the reconfigured facilities based on the work

performed. As there are many variables under consideration, BOE has developed two basic alternatives.

Alternative #1 analyzes costs associated with the moves if the Board sponsored AB-151 is chaptered and the costs associated with the moves if the buildings are retained by the State and a backfill tenant is needed for both locations. If the State chooses to sell either building, it is assumed that BOE's rent will cease effective the sale date.

Alternative #2 analyzes costs associated with the moves if Board sponsored AB-151 is not chaptered. This alternative includes costs for DGS to locate and secure leases for the new properties and assumes the 450 N Street building is retained with a backfill tenant.

These alternatives do not explore the cost or savings efficiency associated with a backfill tenant as those costs are under the jurisdiction of DGS and the prospective tenant. All cost estimates are based on San Diego/San Marcos move dates of June 1, 2012, and 450 N Street move date(s) of July 1, 2014, and July 1 2015, respectively.

The BOE understands that the existing tenants in the San Diego building may be moved to a new site as identified by DGS as part of a potential sale. The BOE specifically asked to immediately vacate the premises and to be excluded from this new project in a letter to the DGS Director dated February 11, 2010, as this will not meet BOE's new service delivery model. (Exhibit VII)

For the San Diego and San Marcos offices, BOE recommends the move be completed in one fiscal year. For the Headquarters building BOE recommends moving the 2800 +/- employees in phases over two fiscal years. This will minimize the impact to the general fund and allow for a smooth transition of the 600 +/- employees temporarily housed at the two annex locations at the end of the firm term of those leases.

Alternative 1 – Assumes AB-151 is chaptered. Consolidate BOE Headquarters operations into one location; reconfigure and relocate the San Diego and San Marcos offices; all moves to be completed by the end of FY 2015/16.

For the Headquarters location:

Assumptions:

- State retains the building and a backfill tenant is placed in the building in two phases
- BOE vacates half of the building on July 1, 2014 and turns the space over to DGS to renovate for the new tenant
- Half of the new tenant's staff moves into the remodeled space no later than July 1, 2015
- BOE to reduce its rent by \$6 million annually
- BOE vacates the remaining floors on July 1, 2015
- DGS completes remaining renovation/tenant improvements to allow the new tenant to move their remaining staff in no later than July 1, 2016
- BOE reduces its rent by the remaining \$4.5 million

- Rent costs are based on current estimate of \$2.50 per square foot and may need to be adjusted upwards to reflect improved market conditions
- 600 +/- staff are moved from the two annex locations and those leases are terminated in accordance with the agreements
- \$4.5 million in annual annex location rent is redirected to the new facility

The BOE is seeking a lease build-to-suit arrangement that allows for tenant improvements (TI's) to be amortized over the term of the lease. BOE will relocate its modular furniture purchased for the annex locations at 621 Capitol Mall and 160 Promenade Circle to the new facility, thereby avoiding the costs of new furniture purchases.

The cost of the Headquarters relocation component is \$150,000 in FY 2011/12 through 2016/17 for temporary help who specialize in State of California real estate transactions to assist BOE in locating, negotiating and securing a suitable campus. Funding of \$16.8 million for FY 2014-15, \$13.2 million for FY 2015-16, and \$750,000 for FY 2016-17 and ongoing is requested where 3,000 +/- employees are relocated in phases over two fiscal years (1,500 +/- each fiscal year) from 450 N Street and the annex locations to the new Headquarters facility.

In concert with the project, BOE is also examining the physical footprint of its district offices and looking for opportunities to reconfigure them based on current business needs and cost considerations.

For the San Diego/San Marcos Office of the Future:

Assumptions:

- Staff moves to new locations effective June 1, 2012
- Building is not sold requiring a backfill tenant to be located
- BOE must continue paying rent at the San Diego building until the backfill tenant is found – assumes backfill by FY 2014/15
- San Marcos rent ceases upon notice of move out date consistent with soft term of the existing lease
- Rent costs are based on current estimate of \$2.50 per square foot and may need to be adjusted upwards to reflect improved market conditions

A new service delivery model for the district offices will allow BOE to move towards a new configuration with a smaller public counter function in more urban, costly locations and audit/compliance functions located in more suburban, least costly locations.

The cost of the San Diego/San Marcos Office of the Future component is \$1.2 million in FY 2011-12, \$840,000 in FY 2012-13, \$684,000 in FY 2013-14, and \$325,000 in FY 2014-15 and ongoing.

The following table summarizes the total funding request for Alternative 1 which allows BOE to initiate a site selection for our Headquarters, San Diego, and San Marcos facilities:

Headquarters – Sacramento
Alternative I - BOE Vacates Building -151 is Chaptered

Fiscal Year Phase	FY 2011-12 Phase 1	FY 2012-13 Phase 2	FY 2013-14 Phase 3	FY 2014-15 Phase 4	FY 2015-16 Phase 5	FY 2016-17 and Ongoing Phase 6
Description	Construction	Construction	Construction	1,500 Employees Occupy	1,500 Employees Occupy	3,000 Employees Occupy
Temporary Help	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000
New Rent Estimate <u>a/</u>				\$9,000,000	\$18,000,000	\$18,000,000
Rent Offset <u>b/</u>				(2,250,000)	(10,950,000)	(17,400,000)
One-time Costs <u>c/</u>				9,900,000	6,000,000	
Total Request	\$150,000	\$150,000	\$150,000	\$16,800,000	\$13,200,000	\$750,000

San Diego and San Marcos District Offices
Alternative I - BOE Vacates Building -151 is Chaptered

Fiscal Year Phase	FY 2011-12 Phase 1	FY 2012-13 Phase 2	FY 2013-14	FY 2014-15 and Ongoing	FY 2015-16 and Ongoing	FY 2016-17 and Ongoing
Description	Site selection, build out of tenant improvements 140 Employees Occupy 6/1/12	140 Employees Occupy Full Year				
New Rent Estimate:						
Space A - District Support Office <u>d/</u>	\$51,000	\$606,000	\$606,000	\$606,000	\$606,000	\$606,000
Space B - District Service Center <u>e/</u>	20,000	234,000	234,000	234,000	234,000	234,000
Rent Offset <u>f/</u>			(156,000)	(515,000)	(515,000)	(515,000)
One-time Costs <u>g/</u>	1,078,000					
Total Request	\$1,149,000	\$840,000	\$684,000	\$325,000	\$325,000	\$325,000
Grand Total Alternative I	\$1,299,000	\$990,000	\$834,000	\$17,125,000	\$13,525,000	\$1,075,000

a/ 600,000 square feet x \$2.50 per square feet x 12 month (FY 2014-15 prorated at 50%).

b/ Estimated HQ budgeted rent at \$12.9 million plus \$4.5 million for the two annexed buildings = \$17.4 million.

FY 2014-15 rent offset at 50% of \$4.5 million for the two annexed buildings and

FY 2015-16 \$4.5 million for the two annexed building plus 50% of HQ budgeted base of \$12.9 million

c/ During FY 2014-15, 1,500 Employees x \$6,600 for modular furniture and moving expenses.

During FY 2015-16, out of the 1500 employees moving, 600 already have modular furniture, so

900 x \$6,600 for modular furniture and moving expenses.

d/ 101 employees x 200 square feet per employee x \$2.50 per square feet x 12 months. FY 2011-12 rent is prorated for 1 month.

e/ 39 employees x 200 square feet per employee x \$2.50 per square feet x 12 months. FY 2011-12 rent is prorated for 1 month.

f/ Rent offset baseline budgeted base for San Diego at \$359,000 and San Marcos at 156,000 for a total of \$515,000.

FY 2014-15 rent offset is base on San Marcos rent of \$156,000.

g/ One time costs for modular furniture and moving expenses, telecommunications and data equipment.

Pros:

- Minimizes the impact to the General Fund by spreading costs over multiple fiscal years.
- Supports BOE's core mission of revenue generation and processing.
- Potentially minimizes facility related WC claims.
- Conforms with Legislative intent of AB-151.
- Authorizes BOE to rent or lease needed facilities to meet our business needs.
- Provides DGS with the opportunity to either repair the 450 N Street and San Diego building while un-occupied or explore alternatives to sell the buildings thereby limiting the State's future liabilities/expenses related to the buildings special maintenance requirements.
- Somewhat mitigates one-time costs of this move by the eliminating continuing infrastructure disruptions to our revenue collection process.
- Provides a safe and healthy work environment that allows employees to work efficiently and effectively.
- Provides adequate room for reasonable program growth.
- Minimizes staff disruptions, lost productivity, and revenue loss from moving to "swing" space within the Headquarters building and San Diego area.
- Allows for the seamless transition of the 600 +/- employees from their temporary location into the new Headquarters facility at the end of the firm term of their lease.

Cons:

- Requires a budget augmentation.

Alternative 2 – Assumes AB-151 is not chaptered; therefore, DGS costs to locate new facilities must be added to the proposal. Assumes the 450 N Street building is not sold and a backfill tenant must be located. Assumes a sale of the San Diego building effective July 1, 2013.

For the Headquarters location:

Assumptions:

- State retains the building and a backfill tenant is placed in the building in two phases
- BOE reimburses DGS to locate and secure new facilities
- BOE vacates half of the building on July 1, 2014
- DGS renovates that space for the new tenant and places half of the new tenant's staff in the remodeled space no later than July 1, 2015
- BOE reduces its rent by \$6 million annually
- BOE vacates the remaining floors on July 1, 2015
- DGS completes renovation/tenant improvements to allow the new tenant to move their remaining staff in no later than July 1, 2016
- BOE reduces its rent by the remaining \$4.5 million
- Rent costs are based on current estimate of \$2.50 per square foot and may need to be adjusted upwards to reflect improved market conditions
- 600 +/- staff are moved from the two annex locations and those leases are terminated in accordance with the agreements
- \$4.5 million in annual annex location rent is redirected to the new facility

The BOE is seeking a lease build-to-suit arrangement that allows for tenant improvements (TI's) to be amortized over the term of the lease. BOE will relocate its modular furniture

purchased for the annex locations at 621 Capitol Mall and 160 Promenade Circle to the new facility, thereby avoiding these costs.

The cost of the Headquarters relocation component is \$150,000 in FY 2011/12 through 2016/17 for temporary help who specialize in State of California real estate transactions to assist BOE in locating, negotiating and securing a suitable campus. Funding of \$17.1 million for FY 2014-15, \$13.5 million for FY 2015-16, and \$758,000 for FY 2016-17 and ongoing is requested where 3,000 +/- employees are relocated in phases over two fiscal years (1,500 +/- each fiscal year) from 450 N Street and the annex locations to the new Headquarters facility.

In concert with the project, BOE is also examining the physical footprint of its district offices and looking for opportunities to reconfigure them based on current business needs and cost considerations.

For the San Diego/San Marcos Office of the Future:

Assumptions:

- Staff moves to new locations effective June 1, 2012
- Building is sold by July 1, 2013
- BOE is allowed to stop paying rent for the San Diego building space as of that date
- San Marcos rent ceases upon notice of move out date consistent with soft term of the existing lease
- Rent costs are based on current estimate of \$2.50 per square foot and may need to be adjusted upwards to reflect improved market conditions

A new service delivery model for the district offices will allow BOE to move towards a new configuration with a smaller public counter function in more urban, costly locations and audit/compliance functions located in more suburban, least costly locations.

The cost of the San Diego/San Marcos Office of the Future component is \$1.2 million in FY 2011-12, \$863,000 in FY 2012-13, \$693,000 in FY 2013-14, and \$329,000 in FY 2014-15 and ongoing.

The table in the next page summarizes the total funding request for Alternative 1 which allows BOE to initiate a site selection for our Headquarters, San Diego, and San Marcos facilities:

Headquarters – Sacramento
Alternative II - BOE Vacates Building -151 is Not Chaptered

Fiscal Year Phase	FY 2011-12 Phase 1	FY 2012-13 Phase 2	FY 2013-14 Phase 3	FY 2014-15 Phase 4	FY 2015-16 Phase 5	FY 2016-17 and Ongoing Phase 6
Description	Construction	Construction	Construction	1,500 Employees Occupy	1,500 Employees Occupy	3,000 Employees Occupy
Temporary Help	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000
New Rent Estimate <u>a/</u>				\$9,000,000	\$18,000,000	\$18,000,000
Rent Offset <u>b/</u>				(2,250,000)	(10,950,000)	(17,400,000)
One-time Costs <u>c/</u>				9,900,000	6,000,000	
DGS Costs <u>d/</u>				326,000	282,000	8,000
Total HQ Request	\$150,000	\$150,000	\$150,000	\$17,126,000	\$13,482,000	\$758,000

San Diego District Office
Alternative II - BOE Vacates Building -151 is Not Chaptered

Fiscal Year Phase	FY 2011-12 Phase 1	FY 2012-13 Phase 2	FY 2013-14	FY 2014-15 and Ongoing	FY 2015-16 and Ongoing	FY 2016-17 and Ongoing
Description	Site selection, build out of tenant improvements 140 Employees Occupy 6/1/12	140 Employees Occupy Full Year				
New Rent Estimate:						
Space A - District Support Office <u>e/</u>	\$51,000	\$606,000	\$606,000	\$606,000	\$606,000	\$606,000
Space B - District Service Center <u>f/</u>	20,000	234,000	234,000	234,000	234,000	234,000
Rent Offset <u>g/</u>			(156,000)	(515,000)	(515,000)	(515,000)
One-time Costs <u>h/</u>	1,078,000					
DGS Costs <u>d/</u>	26,000	23,000	9,000	4,000	4,000	4,000
Total Request	\$1,175,000	\$863,000	\$693,000	\$329,000	\$329,000	\$329,000
Grand Total Alternative II (B)	\$1,325,000	\$1,013,000	\$843,000	\$17,455,000	\$13,811,000	\$1,087,000

a/ 600,000 square feet x \$2.50 per square feet x 12 month (FY 2014-15 prorated at 50%).

b/ Estimated HQ budgeted rent at \$12.9 million plus \$4.5 million for the two annexed buildings = \$17.4 million.

FY 2014-15 rent offset at 50% of \$4.5 million for the two annexed buildings and

FY 2015-16 \$4.5 million for the two annexed building plus 50% of HQ budgeted base of \$12.9 million

c/ During FY 2014-15, 1,500 Employees x \$6,600 for modular furniture and moving expenses.

During FY 2015-16, out of the 1500 employees moving, 600 already have modular furniture, so

900 x \$6,600 for modular furniture and moving expenses.

d/ DGS costs include one time ARF fee, monthly lease/rent cost, and costs for space planning

e/ 101 employees x 200 square feet per employee x \$2.50 per square feet x 12 months. FY 2011-12 rent is prorated for 1 month.

f/ 39 employees x 200 square feet per employee x \$2.50 per square feet x 12 months. FY 2011-12 rent is prorated for 1 month.

g/ Rent offset baseline budgeted base for San Diego at \$359,000 and San Marcos at 156,000 for a total of \$515,000.

FY 2014-15 rent offset is base on San Marcos rent of \$156,000.

h/ One time costs for modular furniture and moving expenses, telecommunications and data equipment.

Pros:

- Minimizes the impact to the General Fund by spreading costs over multiple fiscal years.
- Supports BOE's core mission of revenue generation and processing.
- Somewhat mitigates the one-time costs of this move by the eliminating continuing infrastructure disruptions to our revenue collection process.
- Provides a safe and healthy work environment that allows employees to work efficiently and effectively.
- Minimizes staff disruptions from moving to "swing" space within the Headquarters building and San Diego area.
- Allows for the seamless transition of the 600 +/- employees from their temporary location into the new Headquarters facility at the end of the firm term of their lease.
- Provides adequate room for reasonable program growth.
- Potentially minimizes facility related WC claims.

Cons:

- Requires a budget augmentation.
- Limits alternatives available to DGS to address 450 N Street and requires DGS to identify and locate a backfill tenant for 450 N Street.
- May require DGS to seek additional Legislative authority to act.

Alternative 3 – Deny this request.

This alternative will result in several significant issues for the State as follows:

First, BOE's ability to support State and local governments and special tax jurisdictions through its tax and fee collection/administration role will continue to be disrupted by building occurrences based on the history of the 450 N Street building and its infrastructure maintenance needs. Anticipated revenue delays/losses will need to be factored in at the appropriate time. Second, the State should anticipate on-going higher costs to address the infrastructure requirements of the Headquarters building. Third, the State should anticipate WC and related costs based on the current operations of both the Headquarters and the San Diego buildings. Fourth the current business operations are not efficient and as cost effective as they should be, and could be made so in moving to a new physical location and configuration.

The Headquarters building will continue to age and experience intermittent, unpredictable system failures (e.g. pipe bursts, electrical outages). Mechanical failures in critical areas (e.g., electrical, vertical transport, airflow capacity, etc.) will continue to interrupt revenue generating activities. Due to the construction defects and encapsulated mold in the building special maintenance protocols will be required to "manage" the building. These protocols generally require containments be constructed when any water event or needed modification requires that sheetrock be cut, baseboards be removed or other building repairs. This makes the cost of such basic repairs/renovations significantly more expensive and time consuming. The San Diego district office building will continue to pose health and safety concerns, and will not meet business operational needs. WC claims related to these buildings are expected to continue to rise, and potential business operations needs that go unmet continue the risk of improper cash handling and breaches of security.

Finally, this alternative does not support BOE's plans to revise its service delivery model and modify district and branch office footprints which may result in reduced rental costs.

Pros:

- Does not require a budget augmentation.
- Does not require strategic planning.

Cons:

- Does not limit the State's future liabilities/expenses related to the buildings special maintenance requirements as DGS will not have the opportunity to either repair the 450 N Street and the San Diego buildings while un-occupied or explore alternatives to sell the buildings.
- Conflicts with AB-151 and approved legislation authorizing BOE to rent or lease any property to meet our business needs.
- Inhibits BOE's ability to continue with its core mission of revenue generation and processing due to disruptions caused by building issues.
- Does not provide adequate room for reasonable program growth.
- Increased costs to the State of California for continued repair, remediation to the Headquarters and San Diego buildings.
- Provides challenges to the State and to BOE's ability to provide a safe and healthy work environment that allows employees to work efficiently and effectively.
- Continues staff disruptions from moving to "swing" space within the Headquarters building and in the San Diego area.
- Requires the Headquarters operation to remain disjointed due to the need to house employees outside of the main building due to capacity limitation.
- Failure to relocate employees will likely result in increased costs to the State in lost revenue generating productivity and continued WC claims, increased requests for reasonable accommodation to work in another location due to the on-going Headquarters investigation, evaluation, testing and repairs.
- On-going costs to monitor the air quality in the Headquarters building will continue.
- Inability to meet the district office security requirements and adequately address the health and safety issues for the San Diego building due to encapsulated asbestos.
- Workload related to investigation, evaluation, testing, repairs and remediation involve lengthy timelines and expenses.
- Inability to realize improved efficiencies in the district and branch offices.
- Continuing employee distrust and fear, impacted performance and an emotionally and mentally impacted workforce, at all levels, due to lack of action to relocate staff to suitable locations.

E. Facility/Capital Outlay Considerations

This Budget Change Proposal addresses BOE business operational needs, building deficiencies, and health and safety issues through the Headquarters and San Diego district office relocation of employees. The BOE would apply the funding currently allocated for facilities rent of \$12.9 million for Headquarters, \$359,604 in San Diego, and \$156,120 in San Marcos to be used to offset new rental costs. The rent would be offset on a pro-rata basis for Headquarters based on the number of employees remaining in 450 N Street during each move phase. This would also provide DGS the authority to explore alternatives to sell, exchange, lease or any combination thereof, the 450 N Street building.

It should be noted that BOE did not receive a specific allocation to pay the "loan" on the 450 N Street building, but we understand that a portion of the \$12.9 million BOE currently pays to DGS was to be used to pay bond debt service on the building if and when the bonds are sold. The BOE proposes that the entire facilities rental allocation of \$12.9 million be retained by BOE to help offset the costs of facilities rent at the new location.

F. Outcomes and Accountability

This proposal will enable BOE to begin the journey to relocate BOE to our campus of the future. A new service delivery model will be implemented in the San Diego district office and San Marcos branch office that will result in a smaller public lobby footprint yet maintain a reasonable level of customer service while allowing for the integration of technology improvements. The Headquarters, San Diego and San Marcos office employees will be moved to locations that meet the business needs of BOE where the health and safety of employees is not a constant concern. The State of California may also avoid costs associated with repair, construction and remediation of 450 N Street while employees work in the building. Securing business operations in both locations allows BOE to efficiently and effectively collect and generate revenue.

The Deputy Director of Administration will maintain control and oversight of the office relocations.

G. Timetable

Upon approval of the recommended alternative, BOE will conduct planning and site searches to implement this proposal beginning July 1, 2010. For the San Diego and San Marcos offices, a site would be selected during FY 2011-12 and then all employees would be moved into the new location during FY 2012-13. For the Headquarters relocation, a phased approach will be used for site selection, construction, and moving all 2,800+/- employees from BOE Headquarters and annex locations into one campus. The chart below details phases of the Headquarters relocation.

Headquarters – Sacramento			
FY 2010-11	FYs 2011, 12, 13 and 14	FY 2014-15	FY 2015-16
Phase 1	Phase 2, 3, 4	Phase 5	Phase 6
Site selection	Construction	1,500+/- Employees Occupy	1,500+/- Employees Occupy

H. Recommendation

Alternative 1 is recommended. Approve a budget augmentation of \$1,299,000 in FY 2011-12, \$990,000 in FY 2012-13, \$834,000 in FY 2013-14, \$17,125,000 in FY 2014-15, \$13,525,000 in FY 2015-16, and \$1,075,000 in FY 2016-17 and ongoing to fund the site selection and tenant improvements for the relocation of Headquarters and provide the ongoing funds for the San Diego and San Marcos offices at new locations.

Funding for the Headquarters is requested in FY 2014-15 for the phase where 1,500+/- employees are relocated and funding is requested in FY 2015-16 for the last phase where 1,500+/- employees are relocated. Approval is consistent with AB-151 for BOE to locate its own headquarters facility and rent or lease any property to meet our business needs.

I. Fiscal Detail

See attached "Fiscal Detail" schedules.

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**STATE BOARD OF EQUALIZATION
Fiscal Year 2011-12
Board of Equalization – Offices of the Future
Headquarters and San Diego/San Marcos Offices**

List of Exhibits

Exhibit I – BOE Field Offices with a Public Counter Lease Information

Exhibit II– LaCroix Davis LLC, State Board of Equalization Building Assessment Final Report, February 25, 2009

http://www.boe.ca.gov/info/pdf/LCD_BOE_FinalReport/LCD_BOE_Final_Report_022509.pdf

Exhibit III– Stantec Architecture Inc., State Board of Equalization Building Infrastructure Study, May 19, 2009

http://www.boe.ca.gov/info/pdf/Building_Infrastructure_Stantec/BOE_Building_Infrastructure_Study_Final.pdf

Exhibit IV – BOE Headquarters Costs, June 24, 2010

Exhibit V – Building Investigations and Reports for 450 N Street Building

Exhibit VI – Building History – 450 N Street Building

Exhibit VII – Letter dated February 11, 2010 from BOE to DGS regarding San Diego Office

**BOE Field Offices
with a Public Counter Lease Information**

EQ DISTRICT	OFFICE	DIST CODE	ADDRESS	STATE OWNED BLDG	FIRM TERM EXPIRATION ¹	LEASE EXPIRATION
1	Oakland	CH	1515 Clay Street, Ste. 303	Y	N/A	N/A
1	Salinas	GHC	111 East Navajo Drive, Ste. 100	N	8/31/2009	8/31/2013
1	San Francisco	BH	121 Spear Street, Ste. 460	N	7/31/2010	7/31/2012
1	San Jose	GH	100 Paseo De San Antonio	Y	N/A	N/A
1	Santa Rosa	JH	50 D Street, Rm 230	Y	N/A	N/A
1	Suisun City	JHF	333 Sunset Avenue, Ste. 330	N	8/31/2010	8/31/2014
2	Bakersfield	ARH	1800 30th St., Ste. 370/380/390	N	3/31/2006	3/31/2008
2	Fresno	KHO	8050 North Palm Ave., Ste. 205	N	9/30/2012	9/30/2018
2	Redding	KHM	2881 Churn Creek Road, Ste. B	N	5/30/2006	4/30/2011
2	Sacramento	KH/OH	3321 Power Inn Road, Ste. 130/210	N	6/30/2008	6/30/2018
2	Ventura	AR	4820 McGrath Street, Ste. 260	N	7/31/2011	7/31/2015
3	El Centro	FHA	1550 Main Street	N	N/A	10/31/2010
3	Irvine	EA	16715 Von Karman Ave., Ste. 200	N	1/31/2013	7/31/2016
3	Rancho Mirage	EHC	35-900 Bob Hope Dr., Ste. 270/280	N	7/31/2010	7/31/2014
3	Riverside	EH	3737 Main St., 9, 10, & 11th Flrs	Y	N/A	N/A
3	San Diego	FH	1350 Front Street, Rm 5047	Y	N/A	N/A
3	San Marcos	FHB	334 Via Vera Cruz, Ste. 107	N	4/30/2010	4/30/2014
4	Culver City	AS	5901 Green Valley Cir., Ste. 200	N	11/30/2013	11/30/2017
4	Norwalk	AA	12440 E Imperial Hwy, Ste. 100	N	4/30/2009	10/31/2012
4	Van Nuys	AC	15350 Sherman Way	N	11/30/2009	11/30/2010
4	West Covina	AP	1521 W Cameron Ave., Ste. 200/300	N	4/30/2014	4/30/2018

¹ After the firm term expiration date, the lease will continue until a 30 to 90 day cancellation notice is provided.

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**Expended and Projected Costs
BOE Headquarters
450 N Street
As of 6/24/2010**

BUILDING COST		REMEDIATION AND MODERNIZATION COSTS	
PMIB Loan	\$81,001,600 ¹	Expended Costs	
Accrued interest and administrative fees (as of 11/20/2009)	9,762,646	DGS Remediation to Date	\$13,203,682
		BOE Remediation FYs 07/08, 08/09, 09/10	8,277,212
		Curtain Wall Project	15,500,000
		Carpet and Paint	1,058,987
		Total Costs to Date	\$38,039,881
		Projected Costs	
		DGS Remediation Costs	\$4,609,162 ²
		BOE Remediation Costs FY 10/11	1,480,000
		Carpet and Paint Remediation	977,414 ³
		Stantec Repairs Hard Costs	7,829,500 ⁴
		Stantec Repairs Estimated Soft Costs	2,200,000
		Elevator Modernization	2,100,000 ⁵
		Elevator Infrastructure	200,000 ⁵
		Total Projected Costs	\$19,396,076
TOTAL OWED ON BOE HQ AS OF 11/20/2009		\$90,764,246	TOTAL REMEDIATION AND MODERNIZATION COSTS
			\$57,435,957

¹Note: DGS entered into a lease purchase agreement with CalPERS in 1993. In 2006, DGS exercised its option to accelerate its lease purchase and on January 17, 2007 DGS received a PMIB loan of \$81,001,600. Title transferred to DGS on February 1, 2007 in which CalPERS received \$80,675,843 for the sale of 450 N Street. Est. interest accrual for 11/20/09 to 10/22/2010 is \$496,304 which does not include SMIF earnings.

² Includes soft costs and a 7% contingency.

³ Includes a \$15,000, or 1.233%, reduction on \$1.2 million ARF transfer for DGS's ARF Recovery Plan.

⁴ Includes Priority 1, 2, and 3 repairs as outlined in Stantec's May 19, 2009 report pages V and VI. Estimate updated by DGS in meeting of 1/11/10 to account for items being completed in other projects.

⁵ Email from Tim Bow 10/1/2009.

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450 N Street Building: Studies and Reports

Dreyfuss and Blackford Optimization Study
August 8, 1997

McGinnis Chen and Associates
Capitol Square Water Infiltration Investigation Report
June 1, 1998

McGinnis Chen and Associates
450 N Street Curtain Wall Investigation Report
December 19, 2003

McGinnis Chen and Associates
450 N Street Exterior Envelope Remediation
January 24, 2005

McGinnis Chen and Associates
450 N Street Emergency Survey and Investigation Report
November 15, 2005

LaCroix Davis Building Assessment Report Summary
December 26, 2008

Final LaCroix Davis Interim Building Assessment Report
December 26, 2008

Final LaCroix Davis Building Assessment Report
February 25, 2009

Stantec BOE Building Infrastructure Study
May 19, 2009

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Building History

- 1991-1992: The Capitol Square Building (450 N Street) is under construction. DBE (Dreyfuss Blackford) is the architect and HP (Hensel Phelps) the general contractor.
- 12/1/1992: 450 N Street was substantially completed.
- 1994-1995: During occupancy of building by BOE, CalPERS, HP, and DBE pursued efforts to resolve water intrusion problems.
- 1998: CalPERS retains Rosenberg McGinnis to conduct an investigation into possible causes of water intrusion from annual precipitation.
- 6/1/1998: CalPERS unable to resolve water intrusion issues with HP or DBE.
- 4/1999-2000: Department of General Services (DGS) investigated leaks and negotiated repairs with HP and DBE.
- 9/1/1999: One spandrel panel fell from the 7th floor East.
- 8/1/2001: Glass breakage south, between 7th and 8th floors.
- Winter 2001-2002: Area below 23rd floor deck south and east water intrusion.
- 6/1/2004: DGS/Environmental Safety Health and Operations Program (ESHOP) team directed to address indoor air quality (IAQ) issues. ESHOP establishes air testing protocols for mold concerns/complaints.
- 1/1/2005: One spandrel panel fell from south elevation between 7th and 8th floors.
- 9/1/2005: Spandrel panels cracked, shards of glass fell into garage deck. Emergency pedestrian protection installed.
- 5/1/2006: DGS contracted with J. R. Roberts Construction Company to make repairs in three phases: spandrel panel repair, vision panel repair, balcony deck repair.
- 9/21/2007: BOE facilities staff discovered wall discoloration; BPM ESHOP tape lifts and bulk samples positive for fungal growth.

Building History

- 9/28/2007: Relocation of BOE employees from 22nd and 23rd floors.
- 10/8-9/2007: BOE staff relocated from 24th floor reported to temporary work location.
- 10/19/2007: BOE reported stain in 1st floor mail room to DGS.
- 2009: 9th floor flood during flex hose repair done by DGS.
- 10/2/09: Suspected mold growth discovered on 3rd floor.
- 10/12/09: Storm caused additional water intrusion from the curtain wall.
- 10/09: Additional visible mold growth (VMG) found on 4th and 11th floors women's restrooms' ceiling and vestibule areas. Wet ceiling tiles found on 10th and 11th floors due to a leaking channel. Both LaCroix Davis (LCD) and Hygiene Tech (HTI) find additional, substantial VMG on 1st floor that was not previously identified.
- 12/2/09: Mold growth found in three doorway areas of 1st floor.
- 1/20/10: 23rd floor balcony doors leaked during storm in January. New leak in the curtain wall at the penthouse was found.
- 2/10/10: Rooms 18A and 18B are under containment due to water intrusion and staining due to adjacent Janitor Closet. One interior column with water staining and VMG.
- 3/2010 DGS Elevator Modernization project.
- 8/2010 DGS remediation completed for sixteen (16) of twenty-two (22) Floors.

State of California

Board of Equalization
Office of Executive Director—MIC: 73
Telephone: (916) 327-4975

Memorandum

To : Mr. Ron Diedrich, Acting Director
Department of General Services

Date: February 11, 2010

From : Ramon J. Hirsig, Executive Director
State Board of Equalization

Subject : San Diego State Building – 1350 Front Street, San Diego

This will serve as the Board of Equalization's (BOE) official notice to the Department of General Services (DGS) of our intention to move the approximately 100 staff out of the San Diego State Building located at 1350 Front Street, San Diego, as soon as possible. In addition, BOE does not wish to be included as future tenants of the leased building that is being contemplated as part of the sell/lease package that will be negotiated for this site during the next 6-12 months.

After reviewing our options regarding this space, BOE has determined that moving our staff to alternative locations is the best decision for the following reasons:

- BOE is currently evaluating our service delivery model to determine our ability to have a smaller customer service presence in this major downtown area and locate the remainder of the staff in an outlying area where rent is less expensive. San Diego will serve as the pilot for this model.
- It does not make prudent fiscal sense to invest money in the needed repairs to the Front Street building, given that it is to be sold within the next 6-12 months. DGS has estimated the carpet replacement cost alone to be approximately \$200,000.
- The elevators break down regularly, limiting the ability for our taxpayers and staff to access our second and fifth floor space.
- The carpet is in such bad condition that it has caused several trips and falls for BOE staff.
- There are a number of repairs or modifications needed to the BOE space; however, we have been told these repairs must be done under containment due to asbestos in various materials in the BOE space, making repairs very costly and the process raising great concerns by employees and the labor union.

During our annual budget discussions with the Department of Finance, at which members of DGS management team were present, it was agreed that BOE would be allowed to pursue options to move from the San Diego building as long as the move did not require a general fund augmentation. In addition, DGS was asked to provide the "discounted rent rate" if the space were vacated and services discontinued and to work with BOE to determine if they could be excluded from the sell/lease plan that was currently being planned for this building. Based on direction from this meeting, BOE held an additional meeting with Mr. Joe Mugartegui, Manager, DGS Asset Management Branch. It was agreed at that meeting that a letter to you would be the appropriate first step to begin this process. BOE will be following up with the formal documentation (CRUISE, FORM 9 & 10's), to facilitate this relocation.

We understand that BOE may be required to continue to pay rent at this location until either a backfill tenant can be located or the sale or long-term lease of the building is completed. It is BOE's expectation, that if a backfill tenant is not located, our requirement to continue to pay rent will cease when the ownership transfer of the building is completed. DGS staff has estimated an

Mr. Ron Diedrich

-2-

February 11, 2010

annual rent reduction of \$16,544 (out of \$400,000) may be possible when all services to the space are discontinued. While any reduction is appreciated, this amount seems minimal given that the building does not have a mortgage or bond debt payment, therefore, the rental rate should be primarily DGS services and utilities. Any assistance you can provide in determining an equitable rent reduction is greatly appreciated.

We look forward to working with your staff to quickly accomplish this move. Please feel free to contact me directly at (916) 327-4975 or via email at ramon.hirsig@boe.ca.gov.

RJH:lh

cc: Honorable Michelle Steel, Board of Equalization Member, Third District
Mr. Louis Barnett, Chief of Staff, Board of Equalization, Third District
Ms. Liz Houser, Deputy Director, Administration Department, BOE
Ms. Randie Henry, Deputy Director, Sales & Use Tax Department, BOE

STATE OF CALIFORNIA
 BUDGET CHANGE PROPOSAL--FISCAL DETAIL
 STATE OPERATIONS
 FISCAL YEAR 2011-12
 (Dollars in Thousands)

Title of Proposed Change: BOARD OF EQUALIZATION - OFFICES OF THE FUTURE

Program/Element/Component: All Programs/All Elements

	PERSONNEL YEARS			CY 2010-11	BY 2011-12	BY + 1 2012-13
	CY	BY	BY + 1			
	2010-11	2011-12	2012-13			
TOTAL SALARIES AND WAGES <i>_a/</i>					\$110	\$110
Salary Savings						
NET TOTAL SALARIES AND WAGES					110	110
Staff Benefits <i>_a/</i>					40	40
Distributed Administration <i>_b/</i>						
TOTAL PERSONAL SERVICES					\$150	\$150
OPERATING EXPENSE AND EQUIPMENT						
General Expense					\$910	
Distributed Administration						
Printing						
Communications					49	
Postage						
Travel--In-State						
Travel--Out-of -State						
Training						
Facilities Operations					71	840
Consulting & Professional Services: Interdepartmental						
Consulting & Professional Services: External					70	
Department of Technology Services						
Data Processing					49	
Equipment						
Other Items of Expense: (Specify Below)						

_a/ See page 31 of 32 for itemized staff benefits and classification detail.

_b/ Represents Distributed Administration costs resulting from this BCP. The Distributed Administration costs for existing BOE programs will reflect a corresponding decrease which will be addressed in the Planning Estimate process.

		<u>BCP No. X</u>		
		<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
		<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
TOTAL OPERATING EXPENSE AND EQUIPMENT			\$1,149	\$840
TOTAL EXPENDITURES (State Operations)			\$1,299	\$990
<u>Source of Funds</u>				
General Fund	(0001)		\$874	\$661
Special Funds:				
Breast Cancer Fund	(0004)			
State Emergency Telephone	(0022)			
Motor Vehicle Fuel Account	(0061)		12	12
Occupational Lead Prevention Fund	(0070)			
Childhood Lead Poisoning Prev. Fund	(0080)			
Cig. and Tobacco Prod. Surtax Fund	(0230)		3	3
Oil Spill Prevention and Admin. Fund	(0320)			
Integrated Waste Management	(0387)			
Underground Storage Tank Fund	(0439)		2	2
Energy Resources Programs Account	(0465)			
CA. Children and Families First Trust Fund	(0623)		7	7
Federal Trust Fund	(0890)			
Timber Tax Fund	(0965)		1	1
Gas Consumption Surcharge Fund	(3015)			
Water Rights Fund	(3058)			
Elec. Waste Recovery and Recycling Acct.	(3065)		4	4
Cig. and Tobacco Prod. Compliance Fund	(3067)			
Federal Funds				
Other Funds				
Reimbursements	(0995)		\$396	\$300
Net Total Augmentation (Source of Funds)			\$1,299	\$990

**DETAIL OF STAFF BENEFITS
AND PERSONAL SERVICES**

Staff Benefits Detail:	CY	BY	BY + 1
	2009-10	2011-12	2012-13
	<i>(Whole Dollars)</i>		
OASDI		\$8,415	\$8,415
Health Insurance		14,568	14,568
Retirement		16,311	16,311
Workers' Compensation		66	66
Industrial Disability Leave		95	95
Non-Industrial Disability Leave		85	85
Unemployment Insurance		55	55
Other		370	370
TOTAL		\$39,965	\$39,965

Classification	Positions			Salary Range <small>a/</small>	Amount		
	CY 2010-11	BY 2011-12	BY + 1 2012-13		CY 2010-11	BY 2011-12	BY + 1 2012-13

Department

Blanket Funds:

Overtime (Various)							
Temporary Help						110,000	110,000
TOTAL SALARIES AND WAGES						\$110,000	\$110,000

a/ The salary is the mid-step of the salary range for the stated classification.

DEPARTMENT: State Board of Equalization
 BCP NO. X
 FISCAL YEAR 2011-12
 DATE: August 25, 2009

SUPPLEMENTAL INFORMATION
 Dollars in Thousands

	<u>Current Year 2010-11</u>	<u>Budget Year 2011-12</u>	<u>Budget Year + One 2012-13</u>
Proposed Equipment:			
N/A	_____	_____	_____
Total	=====	=====	=====
Proposed Contracts:			
N/A	_____	_____	_____
Total	=====	=====	=====
One-Time Costs:			
General Expense		\$910	
Telecommunications		70	
Consulting & Professional Services: External (Moving Expenses)		49	
Data Processing		49	
Total	=====	\$1,078	=====
Future Savings:			
N/A	_____	_____	_____
Total	=====	=====	=====
Full-Year Cost Adjustments:			
N/A	_____	_____	_____
Total	=====	=====	=====