

COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY

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December 10, 1986

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and Members of the Senate

The Honorable Willie L. Brown, Jr.
Speaker of the Assembly
and Members of the Assembly

The Honorable James Nielsen
Senate Minority Floor Leader

The Honorable Patrick Nolan
Assembly Minority Floor Leader

Dear Governor and Members of the Legislature:

The Commission on California State Government Organization and Economy, also known as the Little Hoover Commission, completed a major study of the State's property management activities in March 1986. This study paralleled the work of President Reagan's Special Commission on Government Efficiency, commonly referred to as the Grace Commission because it was chaired by Mr. Peter Grace, Chairman of the Board of the W.R. Grace Corporation. It identified serious problems in the manner in which the State of California buys, leases and manages real property. In addition, the study showed that the State failed to use proven business practices to reduce its overall occupancy costs.

In October 1986, the Little Hoover Commission received a complaint regarding the cost of the planned move of the State Controller's Office from various locations in downtown Sacramento to the Capitol Bank of Commerce Building. In response to this complaint, the Little Hoover Commission completed a formal review of the move by the State Controller's Office. This letter report presents the results of our review.

The Little Hoover Commission found that the decision to move the State Controller's Office was an imprudent business decision that was not cost justified due to the estimated \$8.4 million increase in the cost of the State Controller's office space over a five-year period. This represents a 107 percent increase over the cost of the State Controller's current office space. Moreover, while there was rationale for trying to consolidate the 12 locations formerly occupied by the State Controller's Office in downtown Sacramento, the State failed to seriously consider viable alternatives that could have saved as much as \$4.7 million in office space costs over the five-year period of the lease at the Capitol Bank of Commerce Building.

We believe that the move by the State Controller's Office to the Capitol Bank of Commerce Building is another example of how the State fails to adequately manage its real property assets. This failure, in large part, is due to the decentralized responsibility and accountability for property management at the State level. Thus, the poor judgment and the unsoundness of the financial decision inherent in the State Controller's Office's move only serve to underscore the need for a State Office of Assets Management to oversee the management and control of the State's billions of dollars worth of property assets.

Since the Little Hoover Commission began its study, the State Controller's Office has nearly completed its move to the Capitol Bank of Commerce Building. However, at this time, the State Controller's Office has not occupied the planned executive offices on the 18th floor of the building. Our Commission believes that the State Controller should give serious consideration to sub-leasing these offices at market rates because we believe it would result in an estimated \$436,000 savings to the State over the remaining four and one-half years of the lease.

The remainder of this letter presents background information on the rationale for the State Controller's Office's move, an analysis of the cost impact of the move, and the Commission's recommendations.

ANALYSIS OF THE RATIONALE FOR THE STATE CONTROLLER'S RELOCATION

The State Controller has stated that he has made consistent efforts to consolidate his department into a single facility over the past 12 years. A proposed building site for the State Controller's Office was included as site number two in an early version of the Capitol Area Plan developed by the Department of General Services. However, the Capitol Area Plan has not moved forward at the expected rate. As a result, planning efforts for a single facility to house the State Controller's Office have made little progress.

The State Controller cites several major reasons for making the decision to move his Office into the Capitol Bank of Commerce Building. These include:

1. The Office has operated for several years in overcrowded space well below statewide minimum standards determined by the Department of General Services' Office of Space Management.
2. The Office was fragmented into 12 separate Sacramento locations, some of which did not meet even minimum handicapped and safety compliance standards.
3. Because the Office had previously anticipated a move to a single building in fiscal years 1984-85 or 1985-86, the Office was faced with multiple expiring leases.
4. Since the Office needs to be accessible to best serve the public and State agencies, and because most State agencies are headquartered in the core area of Sacramento, a downtown location for the Office was a requirement.

The Commission's review of the State Controller's rationale for the planned move indicated that there is some merit to these reasons for relocating and consolidating the space occupied by the State Controller's Office. However, the manner in which these reasons for moving were addressed raises many questions that were not adequately answered in the process used to select office space for the State Controller's Office. These questions include:

1. If consolidation of office space that was fragmented into multiple locations was a major goal of the State Controller's Office, why did the State Controller choose a space configuration that results in his Office being housed in three separate locations in downtown Sacramento?
2. While the decision to relocate was a policy decision of the State Controller, who is a Constitutional Officer, why wasn't a more detailed and comprehensive cost/benefit analysis of relocation alternatives performed prior to selecting the Capitol Bank of Commerce Building?
3. Why does the State Controller consider it to be a requirement that his entire Office be located in downtown Sacramento when many of his employees, such as staff in the Payroll and Personnel Services unit and the Local Government Fiscal Affairs unit, do not interact frequently with the general public and State agencies?
4. Does the space configuration within a high-rise office building lend itself well to the type of work performed by many units within the State Controller's Office?
5. Why did the State Controller choose to locate his offices in a building that leaves essentially no room for future growth?

By not answering these questions, the State Controller's Office failed to fully address key issues that would have an impact on his Office's operations. Furthermore, these types of questions should be addressed routinely by the State before any major space management decision is made.

ANALYSIS OF THE COST IMPACT OF THE PROPOSED MOVE

Based on information provided by the State Controller's Office relating to the cost of the planned move to the Capitol Bank of Commerce Building, the Commission conducted a cost impact analysis. The results of this analysis are shown in Exhibit I.

Exhibit I shows that the relocation of the State Controller's Office will result in a 17.53 percent increase in the amount of space leased by its six divisions involved in the relocation. However, the monthly cost of the space leased for these divisions will increase 106.78 percent. Moreover, this will result in a \$1,687,092 increase in the annual space costs and an \$8,435,460 increase in space costs over the five-year term of the lease.

Since the State Controller's Office did not perform a comprehensive cost impact analysis of proposed alternatives to the relocation at the Capitol Bank of Commerce Building, the Commission compared the State Controller's

EXHIBIT I

ANALYSIS OF THE COST IMPACT
OF THE STATE CONTROLLER'S OFFICE'S
RELOCATION TO THE CAPITOL
BANK OF COMMERCE (1)

<u>DIVISION</u>	<u>Pre-Consolidation Square Footage</u>	<u>Post-Consolidation Square Footage</u>	<u>Percent Difference</u>	<u>Pre-Consolidation Monthly Rent (2)</u>	<u>Post-Consolidation Monthly Rent (3)</u>	<u>Percent Difference</u>
Audits	26,718	25,692	(3.85)	\$27,924	\$41,877	49.97
Administration/Disbursements	25,618	37,827	47.66	24,659	61,657	150.04
Local Government/Fiscal Affairs	14,115	18,394	30.31	14,375	29,982	108.57
Systems Development	14,188	25,273	78.13	14,897	41,194	176.53
Unclaimed Property	11,895	14,869	25.00	10,965	24,236	121.03
Payroll Personnel Services	<u>49,578</u>	<u>44,973</u>	(9.29)	<u>38,840</u>	<u>73,305</u>	188.74
Totals	<u>142,112</u>	<u>167,028</u>	17.53	<u>\$131,660</u>	<u>\$272,251</u>	106.78

Annualized Cost Increase

Anticipated Monthly Rent	\$272,251
Prior Monthly Rent	<u>131,660</u>
Difference	\$140,591
X 12 Months	X 12
Annual Cost Increase	<u>\$1,687,092</u>

Cost Increase for Period of Lease

Annual Cost Increase	\$1,687,092
X 5 Years	X 5
Cost Increase for Period of Lease	<u>\$8,435,460</u>

- Notes: (1) Based on data provided by the State Controller's Office, includes an adjustment for the nine months free rent provided by Capitol Bank of Commerce in Fiscal Year 1986-87.
(2) Fiscal Year 1986-87 rate, excluding any renegotiations or escalator clauses.
(3) Rate per lease for five-year term.

Office move to the major move made recently by the Franchise Tax Board. In this way, the Commission could identify potential savings that could have been available to the State Controller's Office if it had considered other alternatives to the downtown location at the Capitol Bank of Commerce Building. The results of this comparison are displayed in Exhibit II.

Exhibit II shows that the cost of the space acquired by the Franchise Tax Board in a 20-year lease-purchase agreement was substantially less than the space that the State Controller's Office has leased at the Capitol Bank of Commerce Building. In fact, the potential savings over the five-year period of the State Controller's Office's lease could have amounted to as much as \$4.7 million if the State Controller's Office had sought out other office space alternatives.

It is also important to note that the State Controller's Office could have realized other benefits by choosing to make a space move like the move made by the Franchise Tax Board. These benefits include: consolidating office space in one location; designing space to meet specific operational and production requirements; and improving parking for employees.

At the present time, the State Controller's Office has relocated approximately 900 of its 1300 employees in the Capitol Bank of Commerce Building. In addition, the State Controller's Office is occupying space at four other locations in downtown Sacramento, including; the State Capitol; 925 L Street; 1227 O Street; and 801 12th Street. The State Controller's Office is planning to relinquish its space at the State Capitol and at 925 L Street to relocate these offices to the executive offices on the 18th floor at the Capitol Bank of Commerce Building. This will leave the State Controller's Office with space in three locations in downtown Sacramento.

Since the space in the executive offices on the 18th floor at the Capitol Bank of Commerce Building could generate rental income to the State, and because the State Controller's Office's space located in the State Capitol is considerably less expensive than the space at the Capitol Bank of Commerce Building, the Commission analyzed the potential cost benefit to the State of the State Controller's Office not relocating its administrative offices at the State Capitol to the Capitol Bank of Commerce Building.

EXHIBIT II

COMPARISON OF STATE CONTROLLER'S OFFICE'S
AND FRANCHISE TAX BOARD'S
SPACE COSTS FOR A FIVE-YEAR PERIOD

Computation of Difference in Cost Per Square Foot

State Controller's Office Monthly Rent per Square Foot (1)	\$1.63
Franchise Tax Board Monthly Rent per Square Foot (2)	1.16
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Difference in Cost Per Square Foot	<u>\$.47</u>

Computation of Potential Savings for State Controller's Office

State Controller's Office Monthly Square Footage Requirement	167,028
X Difference in Cost for Square Foot	X \$.47
Monthly Cost Difference	<u>\$78,503.16</u>
X 60 Months (period of Lease)	X 60
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Potential Savings for State Controller's Office over five-year period of lease	<u>\$4,710,189.60</u>

- Notes:
- (1) Based on data provided by the State Controller's Office on the annualized cost of the lease at Capitol Bank of Commerce
 - (2) Based on the Franchise Tax Board's annualized cost of its 20-year lease-purchase agreement, includes allowances for taxes, building and grounds, utilities, and security.

Exhibit III presents the results of the analysis of potential savings to the State by not relocating the State Controller's administrative offices presently located in the State Capitol.

Exhibit III shows that the State would generate an additional \$4,570 per month in rental income over the cost of its lease at the Capitol Bank of Commerce Building. It also would save \$3,504 per month in rental costs for existing space. Thus, the State could save as much as \$8,074 per month by the State Controller's Office maintaining its space at the State Capitol and renting out the remaining executive office space at the Capitol Bank of Commerce Building. This could amount to a total savings of \$435,996 over the remaining 4 years and 6 months of the lease which begins April 1, 1987.

RECOMMENDATIONS

The Commission recognizes that the State of California has entered into a contract to lease space at the Capitol Bank of Commerce Building to which it is legally bound. However, the following actions should be taken to ensure that the State precludes similar instances from occurring in the future and to make the most out of the State Controller's existing office space arrangements:

1. The Governor and the Legislature should monitor the results of the pro-active property assets management pilot project established by Assembly Bill 3972 (Arieas), Chapter 444, Statutes of 1986, which will identify ways for the State of California to improve its purchase, lease and management of its real property assets.
2. The Governor and the Legislature should create an Office of Assets Management within the Department of General Services that is responsible for managing and controlling the State's property management activities.
3. The State Controller's Office should consider sub-leasing a portion of the yet unoccupied executive office space on the 18th floor of the Capitol Bank of Commerce Building so that it will generate additional rental income and minimize the cost of housing the State Controller's Office's Executive Staff.

EXHIBIT III

POTENTIAL SAVINGS TO THE STATE
BY NOT RELOCATING
THE STATE CONTROLLER'S OFFICES

Potential Savings in Executive Office Space Costs

Equivalent Monthly Space Costs at Capitol Bank of Commerce (4800 sq.ft. @ \$1.63/sq.ft.)	\$7,824
Current Monthly Space Costs at State Capitol (4800 sq.ft. @ \$.90/sq.ft.)	4,320
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Potential Monthly Savings in Office Space Costs by Not Relocating	<u>\$3,504</u>

Potential Rental Earnings to the State by Subleasing Remaining
Executive Office Space at the Capitol Bank of Commerce

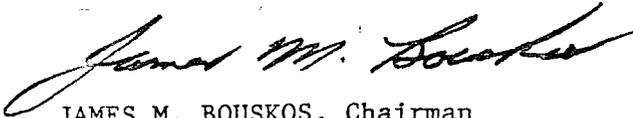
Projected Rental Income for Remaining Executive Office Space (7371 sq.ft. @ \$2.25/sq.ft.)	\$16,585
Monthly Space Costs to State (7371 sq.ft. @ \$1.63/sq.ft.)	12,015
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Potential Monthly Rental Earnings to State	<u>\$4,570</u>

Total Potential Savings to State Over Remaining Period of Lease

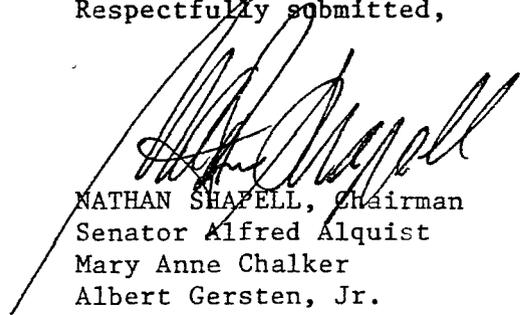
Potential Monthly Savings in Office Space Costs by Not Relocating	\$3,504
Potential Monthly Rental Earnings to State	4,570
	<hr/>
Total Monthly Savings	\$8,074
X Number of Months Remaining on Lease	X 54
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Total Potential Savings	<u>\$435,996</u>

The Commission believes that the Governor and the Legislature should take immediate action to address the State's property management activities to ensure that the State is fully utilizing its property resources and controlling its overall occupancy cost.

Respectfully submitted,



JAMES M. BOUSKOS, Chairman
Real Property Study Subcommittee



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Haig Mardikian
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