

STATE OF CALIFORNIA  
CAPITAL OUTLAY  
BUDGET CHANGE PROPOSAL (COBCP)  
COVER PAGE (REV 06/15)

DEPARTMENT OF FINANCE  
915 L Street  
Sacramento, CA 95814  
IMS Mail Code: A15

**BUDGET YEAR 2016-17**

BUSINESS UNIT: 7760 COBCP NO. 1 PRIORITY: 1 PROJECT ID: \_\_\_\_\_  
(15 digits; for new projects, leave blank)

DEPARTMENT: Department of General Services (DGS)

PROJECT TITLE: Sacramento Region: State Office Infrastructure Plan

TOTAL REQUEST (DOLLARS IN MILLIONS): \$ 1,500.00 MAJOR/MINOR: N/A

PHASE(S) TO BE FUNDED: \_\_\_\_\_ PROJ CAT: \_\_\_\_\_ CCCI/EPI: N/A

**SUMMARY OF PROPOSAL:**

This proposal requests a \$1.5 billion transfer from the General Fund to a new continuously appropriated State Office Infrastructure Fund (Fund) to be used for the long-deferred improvement or replacement of state office buildings in central Sacramento. This significant investment will address the need to improve the safety and capacity of the Capitol Annex building, as well as the most critical state office space deficiencies in Sacramento. Trailer bill language will be proposed to establish the Fund, define the allowable Fund uses, and define the process for establishing capital outlay projects supported by the Fund.

Initial projects include replacement of the Natural Resources Agency building and construction of a new building on O Street in Sacramento to replace the vacant Department of Food and Agriculture Annex and to better use that state-owned land. These new buildings will be built for the 21st century workforce and will incorporate elements to make them efficient and sustainable.

HAS A BUDGET PACKAGE BEEN COMPLETED FOR THIS PROJECT? (E/U/N/?): Y

REQUIRES LEGISLATION (Y/N): Y IF YES, LIST CODE SECTIONS: \_\_\_\_\_

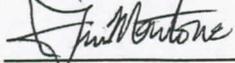
REQUIRES PROVISIONAL LANGUAGE (Y/N) N

IMPACT ON SUPPORT BUDGET: ONE-TIME COSTS (Y/N): Y FUTURE COSTS (Y/N): Y

FUTURE SAVINGS (Y/N): N REVENUE (Y/N): N

DOES THE PROPOSAL AFFECT ANOTHER DEPARTMENT (Y/N): Y IF YES, ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED BY ITS DIRECTOR OR DESIGNEE.

**SIGNATURE APPROVALS:**

 1/4/16  
PREPARED BY \_\_\_\_\_ DATE \_\_\_\_\_

 1/4/16  
REVIEWED BY \_\_\_\_\_ DATE \_\_\_\_\_

 1/4/16  
DEPARTMENT DIRECTOR \_\_\_\_\_ DATE \_\_\_\_\_

 1-5-16  
AGENCY SECRETARY \_\_\_\_\_ DATE \_\_\_\_\_

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**DOF ANALYST USE**

DOF ISSUE # \_\_\_\_\_ PROGRAM CAT: \_\_\_\_\_ PROJECT CAT: \_\_\_\_\_ BUDG PACK STATUS: \_\_\_\_\_  
ADDED REVIEW: SUPPORT: \_\_\_\_\_ OCIO: \_\_\_\_\_ FSCU/ITCU: \_\_\_\_\_ OSAE: \_\_\_\_\_ CALSTARS: \_\_\_\_\_

PPBA: **Original Signed By:**  
Andrea Scharffer

DATE SUBMITTED TO THE LEGISLATURE: 1/5/16

A. PURPOSE OF THE PROJECT: *(problem, program need, infrastructure deficiency)*

Problem: Sacramento has numerous state office buildings that were constructed in the mid-1950s through early 1980s that have not been substantially updated. These aged buildings are generally inefficient, do not meet current accessibility standards, and require substantial renovation or outright replacement to provide sustainable office space for the state workforce in Sacramento.

The 2014 Budget Act appropriated funding to DGS to prepare a long-range planning study for office space in the Sacramento region. Assembly Bill 1656 (Dickinson, Chapter 451, Statutes of 2014) further codified this requirement and directed DGS to examine the long-term suitability of state-owned office buildings in the County of Sacramento and the City of West Sacramento.

DGS contracted with Hellmuth, Obata & Kassabaum (HOK), an internationally recognized architecture and engineering firm, to conduct independent analysis of state-owned office space. HOK conducted a far-reaching planning study referred to as The State Facility Long Range Planning Study of the Sacramento Region (Planning Study) that assessed the condition of state office facilities controlled by DGS using building industry standards to determine the best course of action to address DGS' office building infrastructure deficiencies.

The study identified the buildings with the greatest infrastructure deficiencies and provided an independent review of repair needs and costs. The study further informed a sequencing plan of proposed projects to address the identified needs as provided in the DGS Five-Year Infrastructure Plan.

Proposal: This proposal requests a \$1.5 billion transfer from the General Fund to establish a new, continuously appropriated, State Office Infrastructure Fund to be used for the renovation or replacement of state office buildings in Sacramento and to address deficiencies in the State Capitol East Annex. Trailer bill language will be proposed to:

- Establish the new State Office Infrastructure Fund as a continuous appropriation
- Define the allowable fund uses, including leasing costs; study costs; acquisition, design and construction of capital outlay projects, and program management costs.
- Define the process for establishing capital outlay projects through the State Public Works Board, with prior Legislative notification.

The intent of the Fund is to provide flexibility in the project delivery method, future contracts and agreements, and scheduling for the projects that are detailed in this Capital Outlay Budget Change Proposal as the projects outlined herein would not be dependent on the state bond sale calendar, or fiscal year budget constraints.

The \$1.5 billion will make a significant investment towards the overall plan to address office building space and infrastructure needs in the Sacramento Region.

The benefits of cash-funding projects with the \$1.5 billion rather than using bond funds include:

- Cost avoidance of \$1.3 billion in interest and administrative costs.
- Risk avoidance associated with future bond tax compliance and disclosure issues.
- Flexibility in future contracts and agreements pertaining to the projects.
- Schedule flexibility as these projects would not be dependent upon the state bond sale calendar.
- The opportunity to develop a mixed-use building that will contribute to community vitality and benefit employees and local residents.

The following office projects would be initiated in 2016-17:

**New Natural Resources Headquarters Building (\$530 million)**

The Resources Building in Sacramento was constructed in 1964 and has not undergone a significant renovation in the intervening 51 years. A 2013 renovation study update confirmed a variety of fire and life safety, building code, hazardous materials, building systems and Americans with Disabilities Act (ADA) deficiencies, and recommended a full renovation of the building to correct all issues. The Planning Study published in July 2015 ranked the Resources Building first for overall buildings in Sacramento with the highest need for replacement or renovation.

The Planning Study identified \$149 million in required immediate repairs. This figure assumes the cost of materials or equipment only and does not represent a true “project cost” which could include design and management costs increasing the total cost by as much as 35 – 50 percent. The overall repair costs vs. the replacement cost of the building indicate that a complete renovation of the building is the best use of funds based on the Facility Condition Index (an industry standard used to measure the condition of facilities).

Existing buildings of this age are constrained to old space layouts and design standards that are difficult to conform to cutting edge designs that incorporate the latest office layout approaches. The Resources Building contains many hard-walled offices and narrow hallways in areas where open space would benefit employee collaboration. It is not possible to demolish the offices and hallways to alter the layout of the building with staff in place due to hazardous materials concerns and ADA compliance issues. Construction of a new facility and renovation of the Resources Building allows DGS the opportunity to produce more energy efficient work space in keeping with the Governor’s Executive Order B-18-12.

Although it is technically possible for renovation of the Resources Building to occur in multiple phases, renovation of an occupied building costs millions of dollars more than vacating the building, due to schedule extensions and off-hour rate premiums for labor, as well as disruption to the program due to the need for temporary swing space during the renovation.

An example of a renovation project done in phases is the DMV Headquarters building in Sacramento. The project was completed over a 14 year period at a cost of \$136 million.

Had the building been vacant the project could have been completed in approximately 3 to 4 years with significant costs savings.

In order to vacate the Resources Building in anticipation of a future major renovation, a new facility needs to be constructed to house the current occupants of the Resources Building. The Sacramento leasing market does not contain blocks of space large enough to accommodate the tenants of the Resources Building (approximately 520,000 net square feet [NSF]).

The Paul Bonderson Building (Bonderson Building) was ranked third for overall buildings in Sacramento with the highest need for replacement or renovation. The Department of Water Resources has a significant presence in the Bonderson Building (approximately 99,600 NSF). It is recommended that a new facility or complex be constructed with enough space to accommodate the current occupants of the Resources Building and the Water Resources employees in the Bonderson Building.

The state will contract for a privately-constructed, lease-to-purchase building or complex with approximately 650,000 NSF estimated to be available in 2020.

Program Need: The Resources Building is 520,126 NSF and houses approximately 2,400 state employees, 1,100 of which are from the Department of Water Resources, the largest single tenant, which provides essential functions for the operation of California's water distribution system. Other Resources Building tenants total approximately 1,300 employees primarily from other Natural Resources Agency departments, such as the Department of Parks and Recreation, the Department of Fish and Wildlife and Cal Fire. The Department of Water Resources is also the primary tenant in the Bonderson Building (nearly 500 staff), and these staff would also be relocated into the new proposed building.

Infrastructure Deficiency: Construction of a new facility to house the tenants in the Resources and Bonderson buildings would create the opportunity for major renovations or demolition of the Resources and Bonderson Buildings. HOK, a pre-eminent architectural and engineering firm, identified \$171 million in needed repairs for both buildings of which \$161 million was identified as immediately needed repairs. These amounts represent only the construction costs and do not include design, administration, and management costs which could add as much as 50 percent to the overall project costs. Assuming further space efficiencies, the new proposed building would also potentially allow the state to shift existing leases to the state office building portfolio, creating further consolidation of state functions and cost savings from relinquished leases. The plan is to permanently relocate Natural Resources Agency departments from the Resources and Bonderson Buildings, and potentially leased space, into the new office building; then renovate or demolish and backfill the Resources and Bonderson Buildings with state tenants currently in leased space or with displaced occupants of other older DGS-controlled office buildings creating further opportunity for renovation of the DGS portfolio of office buildings.

#### **New O Street Office Building (\$226 million)**

This project would demolish the vacant California Department of Food and Agriculture (CDFA) Annex building, and construct a new 205,000 NSF office building on-site. The CDFA Annex Building has been vacant since November 2011 due to fire and life safety deficiencies. A 2010 site feasibility study concluded the highest and best use is to

demolish the building and construct a new office building with on-site parking. The recent Planning Study has identified this site as a near-term strategic development site due to its proximity to the State Capitol. The state will demolish the current building and design and construct a 205,000 NSF building at that location.

The Gregory Bateson (Bateson) Building, located at 1600 N Street, was ranked fourth for overall buildings in Sacramento with the highest need for replacement or renovation. This iconic building is recognized as the first major public building to embody the principles of sustainable architecture. In its current condition, however, the building has fire and life safety deficiencies as well as aging building systems and long-standing issues related to water intrusion. The Bateson Building will need to be vacated in order to most efficiently address the deficiencies. The Sacramento leasing market does not currently have the capacity to accommodate the volume of space required for this relocation (approximately 205,013 NSF); therefore, new office space will need to be constructed.

Program Need: The Bateson Building currently houses nearly 1,100 staff comprised of the Health and Human Services Agency and the Departments of Developmental Services and State Hospitals that will need to be relocated in order to address the deficiencies in the building.

The location of the proposed new O Street Office Building is a prime location in close proximity to the State Capitol, and adjacent to other state buildings and governmental agencies, public transit, residential and other mixed use development sites surrounding the neighborhood. A 2010 feasibility study concluded the highest and best use of this location is to demolish the existing CDFA structure and construct a new office building with on-site parking.

Infrastructure Deficiency: A new O Street Office Building would create the opportunity to relocate state employees out of the Bateson Building which was ranked fourth for overall buildings in Sacramento with the highest need for replacement or renovation in the recent Planning Study. The Bateson Building could undergo a complete renovation once vacant or could be used as temporary swing space for other state tenants until a full renovation is pursued.

### **Capitol Annex**

The State Capitol East Annex (Capitol Annex) was constructed between 1949 and 1951 and has not undergone a significant renovation since then. Although the Capitol Annex was not part of the recent Planning Study, the building is aged, outdated, inefficient and deteriorated. Its deficiencies include electrical and building systems that have far exceeded their useful life expectancy, the presence of hazardous materials and limited compliance with the Americans with Disabilities Act. DGS has evaluated proposals to meet the needs of the Legislature; however, the ultimate scope and design of the project will be established in consultation with the Legislature.

Program Need: The Capitol Annex houses members and staff of the Senate and Assembly, the Governor's Office, Lt. Governor's Office, Department of Finance and California Highway Patrol (CHP). The existing building is insufficient to house the

number of employees that work in these offices. The building was completed in the early 1950s and has not undergone a significant renovation. The building was not designed or constructed to house the current number of occupants.

Infrastructure Deficiency: The Capitol Annex does not meet current building codes or accessibility requirements under the Americans with Disabilities Act (ADA). The Capitol Annex contains hazardous materials including asbestos, lead-based paint and Polychlorinated Biphenyls (PCBs). Most of the building systems, i.e., electrical, mechanical, plumbing, heating, ventilation and cooling (HVAC) have exceeded their useful life expectancy and many are deficient. These deficiencies have been exacerbated by frequent office remodels, adding electrical load and changing air distribution requirements not designed into the original building systems which further burden these old building systems. The Capitol Annex does not meet energy savings mandates due to the age of the fixtures and building systems.

Building a new Capitol Annex or renovating the existing Capitol Annex would allow for more energy efficient and sustainable office space and a more accessible and public space for visitors.

General assumptions:

Based on the assumptions that the Resources and Bonderson Buildings must be renovated or replaced as discussed in the Planning Study; and that there are not blocks of sufficient amounts of leased space in the Sacramento market to accommodate the tenants, limited alternatives are available to resolve the existing problem. Although current market conditions would not accommodate relocations of this size into buildings allowing for similar co-location of programs, it should be noted for comparison purposes that current market rent rates for a full service lease in an *existing* Class A lease space in downtown Sacramento range from \$3.00 to \$3.75 per net square foot (NSF), with an average annual rent increase of 2.5 percent. Current Building Rental Account rate for tenants occupying the Resources and Bonderson Buildings is \$1.87/SF plus an additional \$0.60 for Central Plant debt service charges. Therefore, a rental rate increase may be required regardless of delivery method. The same would be true for the tenants of the Bateson Building.

This COBCP is predicated on a structure that is larger than may be required once the space programs for the occupying agencies have been identified and evaluated – for the purposes of this document, potential cost savings from relocating other staff into this structure have not been calculated and may represent lease savings.

The costs and benefits for the options presented below are conceptual in nature, and additional analysis per SAM Section 6818 will be prepared in the next several months to verify long-term costs and benefits, support budget impact (including rental rates, staffing impacts, etc.), and cost-comparison analysis. All alternatives would be constructed in the greater Capitol region.

B. RELATIONSHIP TO THE STRATEGIC PLAN: *(relevance of problem/need to mission and goals)*

These projects are supported by the results of the Planning Study for the Sacramento Region, which identified the Resources Building as the building with the highest need for replacement or renovation in DGS's Sacramento portfolio, the Bonderson Building as the third highest and the Bateson Building as the fourth highest. Additionally, this proposal is consistent with general strategies outlined in the 2016-17 Five Year Plan, which identifies the variety of statutory directives and requirements used to guide state office space planning and development, including energy reduction measures. Lastly, these projects would maximize the use of state-owned, rather than leased office space.

C. **ALTERNATIVES:** *(for each, describe the proposed alternative and provide a brief summary of scope, cost, funding source, program benefits, facility management benefits, and impact on support budget)*

In addition to the following alternatives that address potential project scope options, we have identified two alternative approaches for the establishment of the new State Office Infrastructure Fund, the uses of this Fund, and the authorization process for projects that would be support by this fund.

The first approach, which is the preferred option, is to establish the new State Office Infrastructure Fund, specify the allowable Fund uses, and define the project authorization process in statute. The most significant advantage to this approach is greater flexibility in the project schedule, as project authorization and funding would not be subject to the annual budget process, which would reduce the time it would take to complete each project. The speed in which the projects are completed is an important factor in the ultimate project cost as delays and economic factors can result in significant cost overruns. Therefore, the flexibility afforded by this option could reduce costs beyond the \$1.3 billion specifically associated with cash, rather than bond funding, these projects.

The second approach would be to individually authorize each project through the annual budget or legislative process. This option is not preferred because it would delay the completion of projects or specific phases of work until the following fiscal year in the event that the project is ahead of schedule. This loss of flexibility could result in increased project costs.

**Alternative 1:**

**Construct a New Natural Resources Headquarters Building, a New O Street Office Building, and Address the Capitol Annex**

*Contract for a privately-constructed lease to purchase a new high rise office building or mid-rise office campus to house the current tenants of the Resources and Bonderson Buildings; construct a new O Street Office Building to house the current tenants of the Bateson Building; construct a New State Capitol Annex or renovate the existing Capitol Annex and construct a new Legislative Office Building II.*

Cost: More than \$1.3 billion in total project costs.

Funding Source: Transfer \$1.5 billion from the General Fund to a new State

Office Infrastructure Fund to be used for the renovation or replacement of state office buildings in Sacramento and the Capitol Annex. The \$1.5 billion will make a significant investment towards the overall plan to address office building space and infrastructure needs in the Sacramento region.

Program Benefit: This option would provide modern and efficient office space to client agencies and the legislative branch. Another programmatic benefit would be additional consolidation of programs from multiple locations into new facilities. This would also be a catalyst for a continuing program to make much needed repairs, renovations and replacement of state office buildings.

Facility Management Benefits: New facilities would be easier to manage and maintain. This would also enhance the state's ability to comply with sustainability and energy efficiency goals and also reduce ongoing operating costs associated with energy and water usage.

Impact on the support budget: This proposal may require a net increase to client agencies' support budgets to accommodate the difference between current building rental rates (primarily the under-market Building Rental Account currently at \$1.87/SF plus Central Plant charges of \$0.60/FT) and the new rental rate. Utility costs not related to the Central Plant may also be required. The economic and support impact analyses are under development.

## **Alternative 2:**

### **Construct a New Natural Resources Headquarters Building**

*Contract for a privately-constructed lease to purchase a new high rise office building or mid-rise office building campus.*

Cost: Project costs are estimated at \$530 million including building core and shell, parking, and TIs.

Funding Source: General Fund or Lease Revenue Bond funded.

Program Benefits: This option would provide modern and efficient office space to client agencies. Another programmatic benefit would be additional consolidation of programs from multiple locations into the new building.

Facility Management Benefits: A new facility would be easier to manage and maintain. This would also enhance the state's ability to comply with sustainability and energy efficiency mandates.

Impact on the support budget: This proposal would require a net increase to client agencies' support budgets to accommodate the difference between current building rental rates (primarily the under-market Building Rental Account currently at \$1.87/SF plus Central Plant charges of \$0.60/FT) and the new rental rate. Utility costs not related to the Central Plant would also be required. The economic and support impact analyses will be fully developed this fall.

### **Alternative 3:**

#### **Renovate the current Natural Resources Building**

*Renovate the Natural Resources Building five to six floors at a time.*

Cost: Project costs are estimated at \$584 million. This does not include costs for leased space.

Funding Source: General Fund or Lease Revenue Bond funded

Program Benefits: This option would correct deficiencies identified in the Planning Study over a period of 15 years. However, there would be program impacts and increased costs associated with temporary swing space that would need to be identified for programs or portions of programs as sections of the building are renovated.

Impact on support budget: This proposal would require a net increase to client agencies' support budgets to accommodate the difference between current building rental rates (primarily the under-market Building Rental Account currently at \$1.87/SF plus Central Plant charges of \$0.60/SF) and the new rental rate in addition to market rate for temporary swing space.

#### **D. RECOMMENDED SOLUTION:**

##### **1. Construct a New Natural Resources Headquarters Building, a New O Street Office Building, and Address the Capitol Annex**

*Contract for a privately-constructed lease to purchase new high rise office building or mid-rise office building campus to house the current tenants of the Resources and Bonderson Buildings; construct a new O Street Office Building to house the current tenants of the Bateson Building; address the Capitol Annex infrastructure needs.*

This alternative would provide a new 650,000 NSF/812,500 GSF high rise office building or mid-rise office building campus to replace the Resources and Bonderson buildings on a site provided by the developer. The Resources and Bonderson buildings are ranked number one and three respectively for overall buildings in Sacramento with the highest need for replacement or renovation in the Planning Study for the Sacramento Region.

This project would contractually engage a private developer to construct a +/- 650,000 NSF Class A office building. The project will also include parking pursuant to and in conformance with local code requirements.

To the extent possible, the new space program will conform to cutting edge designs that incorporate the latest office layout approaches including telecommuting, and shared and open spaces. DGS is actively pursuing discussions to update SAM to achieve space standard modifications with the future in mind, allowing the new generation of state office development to achieve greater space and cost efficiencies while still providing an appealing environment. The goal is to reduce the cost per person per square foot of space provided.

Conceptual timeline for the Resources / Bonderson replacement project, from authorization by the Legislature to occupancy, is 48 months. Assuming legislative authority to proceed by July 2016, occupancy will occur mid-2020.

This alternative would also provide a new 205,000 NSF office building on O Street in close proximity to the State Capitol. The new office space could house the current tenants in the Bateson Building, including the Health and Human Services Agency and the departments of Developmental Services and State Hospitals. The Bateson Building is ranked fourth for overall buildings in Sacramento with the highest need for replacement or renovation in the Planning Study.

In this project the state will demolish the currently vacant CDFA Annex and design and construct a 205,000 NSF building at that location.

This alternative also provides an opportunity to construct a new Capitol Annex or renovate the current Capitol Annex to address the aged, obsolescent Capitol Annex and provide modern, energy efficient office space for the members and staff of the Legislature.

This alternative provides a catalyst on which to build a program to begin to address the deferred maintenance, repairs, renovation and replacement of the office buildings in the DGS portfolio that will provide sustainable office space for the state workforce in Sacramento and throughout the state.

In addition, a \$1 million support request for Program Management fees will be included in the 2016/17 Budget.

#### E. CONSISTENCY WITH GOVERNMENT CODE SECTION 65041.1:

1. Does the recommended solution (project) promote infill development by rehabilitating existing infrastructure and how? Explain.

This is a proposal for new projects that will likely utilize an existing urban site for development.

2. Does the project improve the protection of environmental and agricultural resources by protecting and preserving the state's most valuable natural resources? Explain.

The proposed projects will likely use an existing urban site, thereby reducing the pressure on natural resources by alleviating suburban sprawl. The projects will incorporate energy efficiency in the building design, promote sustainable design, reduce operating costs associated with energy and water usage and help reduce the need for future power infrastructure projects.

3. Does the project encourage efficient development patterns by ensuring that infrastructure associated with development, other than infill, support efficient use of land and is appropriately planned for growth? Explain.

In the event the proposed projects ultimately occur outside an urban infill area, it will comply with existing regional planning and growth policies.