

The California State Auditor released the following report today:

State Board of Equalization Building

Despite Ongoing Health and Safety Concerns, the State Has Not Thoroughly Analyzed the Costs and Benefits of Relocating Employees

BACKGROUND

Since 1993 the State Board of Equalization (BOE) has occupied the building located at 450 N Street in downtown Sacramento (building) as its main headquarters location, while housing some of its headquarters employees at four other locations in the region. The Department of General Services (General Services), the State's property manager, purchased the building in 2006. Maintenance problems, such as water intrusion, mold, and glass panels falling from the building, have been an ongoing concern since 1994. Recently, three BOE employees filed a class action lawsuit against the State due to alleged health concerns related to the building's problems. General Services has performed several major repairs on the building, costing nearly \$60 million, and is preparing for another large repair project.

KEY FINDINGS

During our review of BOE's and General Services' analyses of the building, we noted the following:

- Although the BOE has performed or commissioned several analyses of the costs and benefits of relocating and consolidating its headquarters, it has not prepared a cohesive, properly supported analysis.
 - ✓ It has no basis for its claim that a new facility will increase productivity by 5 percent—it has not analyzed its processing operations to determine the inefficiencies of its current spatial organization and how they could be eliminated by moving to a horizontal processing structure.
 - ✓ Despite identifying several failing components in the building, General Services has not finalized cost estimates or time frames for making the repairs—the preliminary estimates are \$40 million and four years, respectively.
- BOE's internal analysis of the costs and benefits of making the necessary repairs to the building focused on two scenarios—performing the repairs in phases and temporarily relocating certain staff for each phase in one scenario, and consolidating and permanently moving all headquarters staff into a new facility before repairing the building in the other scenario—but could not support several of its key estimates.
- Because BOE estimated its long-term staffing projections using short-term information, it has overstated the need for additional office space. BOE estimated that its staff would grow by 3 percent each year, yet we estimate a growth rate of 1 percent each year, which would result in significantly less additional square footage needed over the next 15 years.
- Although our expanded analysis indicates the State would benefit financially by moving BOE to a new consolidated facility, the benefit to the State disappears in three months if the building remains vacant after it is repaired.
- Neither General Services nor BOE have determined the most cost-effective method for procuring a new consolidated facility, nor has General Services analyzed whether it is in the best interest of the State to keep the building or what to do with it if BOE vacates the building.

KEY RECOMMENDATIONS

We made several recommendations to BOE including the following:

- Develop supportable rationale for the assumptions underlying its analysis of the costs and benefits of moving into a new consolidated facility.
- Identify inefficiencies in its current spatial configuration and the benefits of a new consolidated facility.
- Incorporate staffing growth into its analysis using projections based on long-term historical data.
- Analyze employees' productivity and revenue collection and monitor those metrics at least semiannually to estimate shifts in worker productivity and revenue collection.

We also recommend that General Services analyze whether it would be in the State's best interest to keep or sell the BOE building. Further, we recommend that General Services include in the analysis appraisals to assess the value of the building with and without making the repairs, and evaluate the potential productive uses for the building.