

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 08/16)

Fiscal Year 2017/18	Business Unit 7760	Department General Services	Priority No.
Budget Request Name 7760-002-BCP-2017-GB		Program 6325 REAL ESTATE SERVICES DIVISION	Subprogram 010 ASSET MANAGEMENT BRANCH

Budget Request Description
 Fairview Developmental Center: Consultant Services

Budget Request Summary

On April 1, 2016, the Department of Developmental Services (DDS) submitted a closure plan for the Fairview Developmental Center (FDC) that was approved by the Legislature. The Asset Management Branch (AMB) is responsible for identifying alternative reuses for the approximately 110-acre FDC campus.

AMB is requesting a one-time Property Acquisition Law Money Account expenditure authority augmentation and commensurate General Fund loan of \$2,168,000 to contract for the services of external consultants. The consultants will assist with the evaluation of appropriate re-use options in order to identify constraints and opportunities; to make revenue estimations; to work with the City of Costa Mesa to identify local stakeholder interest in the reuse of the property; and, to identify options that will generate the highest return to the state. This may include revenue to fund DDS programs for the developmentally disabled community.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

Project No. Project Approval Document: Approval Date:

If proposal affects another department, does other department concur with proposal? Yes No
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By Jim Martone	Date 01/05/17	Reviewed By Miles Burnett	Date 01/05/17
Department Director Daniel C. Kim	Date 01/05/17	Agency Secretary Jennifer Osborn (for)	Date 01/06/17

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE CALSTARS Dept. of Technology

BCP Type: Policy Workload Budget per Government Code 13308.05

PPBA	Original Signed by: John Fitzpatrick	Date submitted to the Legislature 01.10.17
------	---	---

Analysis of Problem

A. Budget Request Summary

AMB is requesting a one-time Property Acquisition Law Money Account (PAL) expenditure authority augmentation and commensurate General Fund loan in the amount of \$2,168,000 for the purpose of retaining consultant services necessary for the disposition of the FDC.

AMB identifies and implements asset management strategies for state owned real property. Through its proven program, AMB is able to develop a framework that balances the state's interests with those of stakeholders and delivers viable projects that are supported by local communities.

For a project of this size and complexity, AMB needs to contract for external consultants with expertise in stakeholder outreach, biological and cultural resource assessment, property condition and infrastructure capacity assessments, traffic studies, Phase I and II (if required) environmental site assessments, hydrology and water resource studies, master planning studies and collaboration, alternatives analysis and adaptive repurposing studies, market studies, economic modeling, cost estimating and financial analysis, appraisal, and contract negotiations that are not available within existing staff.

B. Background/History

The state has been closing developmental centers over the past several decades. The DDS closed the Lanterman Developmental Center on December 31, 2014. This followed the closure of the Agnews Developmental Center in April of 2011.

Chapter 25, Statutes of 2013 (AB 89) required the California Health and Human Services Agency (HHSA) to submit to the Legislature a master plan for the future of developmental centers. On January 13, 2014, the HHSA submitted the Plan for the Future of Developmental Centers in California. This report recognized that the developmental centers were no longer sustainable in their current design due to declining population and increasing per capita costs.

The Legislative Analyst's Office's 2015-16 Analysis of the Human Services Budget recommended the closure of Sonoma and Fairview Developmental Centers within 10 years.

Welfare and Institutions Code 4474.1 specifies the process to follow and the information to include in a proposal to close a developmental center, i.e. DDS is required to confer with the local county and consider recommendations for the use of the developmental center property. The closure plan is also required to include a description of stakeholder input including local issues, concerns, and recommendations regarding the proposed closure, and alternative uses of the developmental center property. On April 1, 2016 and pursuant to Welfare and Institutions Code section 4474.1, the "Plan for the Closure of Fairview Developmental Center (FDC) and the Porterville Developmental Center General Treatment Area" (Plan) was prepared and submitted to the Legislature for approval. According to the Plan, the state will follow the surplus property process for FDC.

Government Code section 11011 authorizes the Director of the Department of General Services to dispose of state-owned real estate that has been declared surplus by the Legislature. Executive Order S-10-04 and Executive Order W-18-91 established the policy of managing the state's real estate assets to ensure optimum use and maximize potential revenue from the sale of surplus real property. State surplus property sales and management of the state's real estate assets are conducted by AMB. AMB's Asset Enhancement & Surplus Sales Unit identifies and implements value enhancement solutions for unused or underutilized state-owned properties. The Asset Enhancement Unit utilizes specialized and experienced consultants to provide independent and cost effective due diligence that reduces risks to buyers purchasing surplus property and as a result allows the state to realize higher sales proceeds from urban and infill development sites than if properties were sold "as-is". Key steps in the process include development constraints and opportunities analysis, a comprehensive marketing program, review and analysis of proposals, negotiation and preparation of agreements, environmental documentation, outreach to the local community, and assistance with securing entitlements.

Analysis of Problem

AMB lacks the resources to contract for external consultants with expertise in stakeholder outreach, biological and cultural resource assessment, property condition and infrastructure capacity assessments, traffic studies, Phase I and II (if required) environmental site assessments, hydrology and water resource studies, master planning studies and collaboration, alternatives analysis and adaptive repurposing studies, market studies, economic modeling, cost estimating and financial analysis, appraisal, and contract negotiations.

AMB does not have sufficient external contract expenditure authority and thus is required to request resources for specific projects as necessary. AMB contracts with external consultants in order to develop a framework that balances the state's interests with those of stakeholders, and delivers viable projects that are supported by local communities. External consultants will be hired to provide expertise not currently available in state service.

Government Code section 11011(h) provides that the Director of Finance may approve loans from the General Fund to the PAL account for the purposes of supporting the management of the state's real property assets.

Typically the Department of General Services' costs for AMB's efforts are appropriated through the PAL with the support of a General Fund loan. The General Fund loan is reimbursed from the proceeds of a sale or lease of state surplus property.

C. State Level Considerations

Executive Order S-10-04 and Executive Order W-18-91 established the policy of managing the state's real estate assets to ensure optimum use for state operations and maximum value from the sale of excess property. The 2012 May Revise to the Governor's Budget provides for the reduction of the state property footprint by disposing of real property assets that no longer meet state programmatic needs.

Proceeds from the sale of surplus properties, unless otherwise provided in law, are deposited into the Special Fund for Economic Uncertainties.

D. Justification

The FDC is located in the City of Costa Mesa, Orange County. The property consists of approximately 110 acres including 116 buildings totaling approximately 1.1 million square feet, and represents an important real estate asset of regional importance and statewide concern regarding reuse.

The Asset Enhancement Unit utilizes specialized and experienced consultants to provide independent and cost effective due diligence that reduces risks to buyers purchasing surplus property, and as a result allows the state to realize higher sales proceeds from urban and infill development sites than if properties were sold "as-is". Key steps in the process include development constraints and opportunities analysis, a comprehensive marketing program, review and analysis of proposals, negotiation and preparation of agreements, environmental documentation, outreach to the local community, and assistance with securing entitlements. The program's approach to surplus property has proven successful in generating approximately \$650 million in sales revenue from surplus real estate which created over 15,000 jobs, 5,500 housing units, substantial tax-generating retail space, and a variety of nonprofit and public services all at a cost that averages up to only 2 percent of the final sales price.

AMB lacks the resources to contract for external consultants with expertise in stakeholder outreach, biological and cultural resource assessment, property condition and infrastructure capacity assessments, traffic studies, Phase I and II (if required) environmental site assessments, hydrology and water resource studies, master planning studies and collaboration, alternatives analysis and adaptive repurposing studies, market studies, economic modeling, cost estimating and financial analysis, appraisal and contract

Analysis of Problem

negotiations. Due to the complex nature of this work, it is time-consuming and therefore important to begin this work as early as possible.

AMB does not have sufficient external contract expenditure authority and thus is required to request resources for specific projects as necessary. AMB contracts with external consultants in order to develop a framework that balances the state's interests with those of stakeholders and delivers viable projects that are supported by local communities. External consultants need to be hired to provide expertise not currently available in state service.

In order to proceed with the facilitation and collaboration with the City of Costa Mesa and local stakeholders, AMB is requesting \$2,168,000 to fund consultant studies, services, and costs. The scope of the external consultant work will include stakeholder outreach, biological and cultural resource assessment, property condition and infrastructure capacity assessments, traffic studies, Phase I and II (if required) environmental site assessments, hydrology and water resource studies, master planning studies and collaboration, alternatives analysis and adaptive repurposing studies, market studies, economic modeling, cost estimating and financial analysis, appraisal, and contract negotiations in order to identify potential options for the future use of the FDC campus (which are required in order to work with the City of Costa Mesa and local stakeholders).

Budget Estimate (see attached budget detail for a breakdown):

Project Management		\$160,000
Civil Engineering and Site Related		\$210,000
Environmental Assessments		\$740,000
Market and Economic Analyses		\$210,000
Traffic Analysis		\$75,000
Structural Engineering		\$30,000
Architectural & Planning Services		\$485,000
Cost Estimating		\$60,000
Disposition Costs		\$130,000
Distributed Admin		\$68,000
	Total Estimated Costs	\$2,168,000

E. Outcomes and Accountability

The FDC property represents a present opportunity to increase the value and proactively manage a significant state asset and reduce future holding costs of surplus property with a minimum expenditure of funds. The benefits to the state include the preservation enhancement of the value of state's real property, maximizing the utilization of the state's real estate assets, and achieving the highest and most certain return to the state from the sale and disposition of real property. Proceeds from the sale of the state real property are deposited into the Special Fund for Economic Uncertainties.

The program's approach to surplus property has proven successful in generating approximately \$650 million in sales revenue from surplus real estate which created over 15,000 jobs, 5,500 housing units, substantial tax-generating retail space, and a variety of nonprofit and public services all at a cost that averages up to only 2 percent of the final sales price.

F. Analysis of All Feasible Alternatives

Analysis of Problem

Alternative 1: Approve the request for a one-time augmentation of \$2,168,000 in PAL expenditure authority and commensurate loan from the General Fund.

PROS

- This alternative will allow AMB to proceed with the value enhancement of the FDC property and assure the highest and most certain return to the state.
- There is no impact on RESD rates.
- Proceeds from the eventual sale of the property are maximized and will be deposited into the Special Fund for Economic Uncertainties.
- Avoid warm shut down costs.

CONS

- Will temporarily increase state expenditure authority.

Alternative 2: Limit the management of the FDC Surplus property to disposing the asset on an "as-is" basis with no value enhancement.

PROS

- This alternative eliminates the need for consultant services.
- There is no impact on RESD rates.

CONS

- This alternative severely constrains the opportunities to maximize the value and the utilization of a high-value urban real estate asset through the enhancement process.
- Would reduce the amount of revenue realized from the sale of the property that would be deposited into the Special Fund for Economic Uncertainties.

Alternative 3: Deny this request.

PROS

- This alternative eliminates the need for consultant services.
- There is no impact on RESD rates.

CONS

- This alternative eliminates the revenue that the state would realize from the sale of this high-value urban real estate asset that would be generated through the enhancement process and sale of the property that could be deposited into the Special Fund for Economic Uncertainties.
- Ongoing costs for security, maintenance and liability.

G. Implementation Plan

Retention of consultant services needed to complete the sale of FDC will begin upon approval of the 2017-18 Budget Act.

H. Supplemental Information

N/A

I. Recommendation

Approve Alternative 1. Approve the request for one-time augmentation of \$2,168,000 in Property Acquisition Law Money Account expenditure authority and commensurate loan from the General Fund. There is no impact on Real Estate Services Division rates. All expenses incurred in the course of the sale and disposition of the surplus property are managed through the current Property Acquisition Law Money Account/General Fund loan mechanism and will be reimbursed from the proceeds of surplus property sales. More importantly, proceeds from the eventual sale of the FDC property will be deposited into the Special Fund for Economic Uncertainties.

BCP Fiscal Detail Sheet

BCP Title: Fairview Developmental Center: Consultant Services

BR Name: 7760-002-BCP-2017-GB

Budget Request Summary

	FY17					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Operating Expenses and Equipment						
5301 - General Expense	0	68	0	0	0	0
5340 - Consulting and Professional Services - External	0	2,100	0	0	0	0
Total Operating Expenses and Equipment	\$0	\$2,168	\$0	\$0	\$0	\$0
Total Budget Request	\$0	\$2,168	\$0	\$0	\$0	\$0

Fund Summary

Fund Source - State Operations						
0002 - Property Acquisition Law Money Account	0	2,168	0	0	0	0
Total State Operations Expenditures	\$0	\$2,168	\$0	\$0	\$0	\$0
Total All Funds	\$0	\$2,168	\$0	\$0	\$0	\$0

Program Summary

Program Funding						
6325010 - Asset Management Branch	0	2,168	0	0	0	0
9900100 - Administration	0	68	0	0	0	0
9900200 - Administration - Distributed	0	-68	0	0	0	0
Total All Programs	\$0	\$2,168	\$0	\$0	\$0	\$0