

## ACTIVITY REPORTING AND PROPOSAL FORM

### JUDICIAL COUNCIL DIRECTIVES AOC RESTRUCTURING

<b>DATE</b>	10/5/2012
<b>PREPARED BY</b>	Burt Hirschfeld
<b>OFFICE NAME</b>	<u>Office of Real Estate and Facilities Management</u>
<b>JUDICIAL COUNCIL DIRECTIVE NUMBER</b>	127
<b>JUDICIAL COUNCIL DIRECTIVE</b>	E&P recommends that the Judicial Council direct the Administrative Director of the Courts to renegotiate or terminate, if possible, the leases for space utilized by SRO and BANCRO. To the extent AOC staff from other divisions is assigned to work at leased space at the regional offices, the need for locating such staff in currently leased space should be reevaluated.
<b>SEC RECOMMENDATION</b>	Leases for space utilized by SRO and BANCRO should be renegotiated or terminated, if possible, as such lease costs cannot be justified. To the extent AOC staff from other divisions is assigned to work at leased space at the regional offices, the need for locating such staff in currently leased space should be reevaluated.
<b>RESPONSE (check applicable boxes)</b>	
<input checked="" type="checkbox"/> This directive has been completed and implemented:	
<p>With respect to Judicial Council Approved Recommendation No. 127, the following lease transactions and exercised options have been completed (by location):</p> <p>Sacramento North: lease cancellation option exercised at 2880 Gateway Oaks Blvd.; leases at 2850 and 2860 Gateway Oaks Blvd. renegotiated mid-term; lease cancellation option exercised on fourth floor lease at 2850 Gateway Oaks Blvd.</p> <p>Burbank: 11,992 SF of space on first floor sublet; lease to be terminated by electing not to exercise renewal option. By implementation of this decision, relocation to smaller premises in another, lower cost building, will yield additional expense reduction starting July 1, 2013.</p> <p>San Francisco: several lower cost options in San Francisco's Civic Center and Financial districts were identified. Depending upon which points in time are used for comparison purposes, comparable lease space in the same submarket of San Francisco was listed for 25% to 40% lower than the rate paid by the AOC to DGS in Fiscal Year (FY) 2011/12.</p> <p>The AOC sought out potential interest from other state agencies to occupy a surplus of space equal to the 7th floor of the San Francisco building, approximately 38,575 SF.</p> <p>DGS did not permit the AOC to relinquish the space because the occupying agency we identified, the state Public Utilities Commission (PUC), requires the space only until December, 2015, when renovations to their current facility are scheduled to be completed. The AOC executed an inter-branch agreement "subleasing" the 7th floor to the PUC. State-managed renovation projects of this magnitude often fall behind schedule, so PUC's occupancy of the 7th floor may continue into 2016.</p> <p>The AOC re-initiated contact with another state agency which previously expressed interest in relocating to AOC space when their lease expires in March, 2013. However, the space program</p>	

reported by the San Francisco Bay Conservation Development Commission (BCDC) doubled from their earlier requirement. A new test-fit and restack plan, assuming use of all AOC workspaces, indicated that accommodation of BCDC was no longer feasible.


Implementation of the cancellations, terminations, contractions, renegotiations, relocations, and subleases will result in a \$1.52 million rent reduction through this fiscal year, and approximately \$2.35 million through the next fiscal year.

Attachments: Chapter 10 of SEC final report as submitted to JCC and amended with revised data and explanatory footnotes by Real Estate and Asset Management (now Office of Real Estate and Facilities Management); Financial Summary of AOC space and rent reductions submitted by Real Estate and Asset Management to AOC Executive Office.


 127\_SEC\_Final\_Report\_May\_2012\_Chapter\_10\_Footnotes\_(BCDC\_rev).pdf  
Adobe Acrobat Document  
170 KB

 127\_Executive Committee Report 2012-10-17 (BCDC rev).pdf  
Adobe Acrobat Document  
88.2 KB

This directive is forwarded to the Judicial Council with options for consideration:

 File Attachment








Other:

 File Attachment

**TIMELINE AND RESOURCES FOR IMPLEMENTATION**

<b>IMPLEMENTATION DATE OR PROJECTED IMPLEMENTATION DATE</b>	Implementation completed.
<b>RESOURCES REQUIRED FOR IMPLEMENTATION</b>	AOC Real Estate staff and commercial brokerage services were utilized in the Sacramento lease renegotiations and the Burbank sublease.

**ADDITIONAL IMPLEMENTATION INFORMATION (complete only applicable sections)**

<input type="checkbox"/> <b>PROCEDURES/ POLICIES UPDATED OR DEVELOPED</b>	<div style="border: 1px solid black; height: 20px; width: 100%;"></div> <div style="border: 1px solid black; padding: 2px; margin-top: 5px;">  File Attachment </div>
<input type="checkbox"/> <b>TRAINING UPDATED OR DEVELOPED</b>	<div style="border: 1px solid black; height: 20px; width: 100%;"></div> <div style="border: 1px solid black; padding: 2px; margin-top: 5px;">  File Attachment </div>
<input checked="" type="checkbox"/> <b>SAVINGS</b>	<p>For FY 2011/12 and FY 2012/13, \$1,523,814 in cost reduction is being realized as a result of implementation of this recommendation.</p> <p>Note: FY 2010/11 total AOC rent was \$13,813,699. SEC report uses \$14,049,738 without reference dates; difference may be attributable to use of calendar or lease year, versus fiscal year in attached analysis.</p> <p>By inclusion of Burbank lease termination, relinquishment and assignment of space in San Francisco, cumulative AOC rent reductions will total approximately \$2.35 million by FY 2013/14.</p> <p>Supporting documentation attached above.</p> <div style="border: 1px solid black; padding: 2px; margin-top: 10px;">  File Attachment </div>
<input checked="" type="checkbox"/> <b>COST</b>	<p>Commission paid by AOC for Burbank sublease (excluded from reported cost reduction).</p> <div style="border: 1px solid black; padding: 2px; margin-top: 10px;">  File Attachment </div>
<input checked="" type="checkbox"/> <b>EFFICIENCIES</b>	<p>Through exercising cancellation options and renegotiation of Sacramento North leases; contraction of Sacramento Governmental Affairs premises; sublease in Burbank; and sub-assignment of space in San Francisco, the AOC has reduced its real estate occupancy by a total of 68,122 square feet (SF) of space for FY 2011/12 and FY 2012/13. Total contraction will increase to approximately 82,149 SF upon relocation of Burbank office for FY 2013/14 (see AOC Space and Rent Reduction attachment).</p> <div style="border: 1px solid black; padding: 2px; margin-top: 10px;">  File Attachment </div>
<input type="checkbox"/> <b>SERVICE LEVEL IMPACT</b>	<div style="border: 1px solid black; height: 20px; width: 100%;"></div> <div style="border: 1px solid black; padding: 2px; margin-top: 5px;">  File Attachment </div>
<input type="checkbox"/> <b>OTHER</b>	<div style="border: 1px solid black; height: 20px; width: 100%;"></div> <div style="border: 1px solid black; padding: 2px; margin-top: 5px;">  File Attachment </div>
<b>ADMINISTRATIVE DIRECTOR OF THE COURTS (ADOC) REVIEW AND APPROVAL</b>	
<b>ADOC REVIEW</b>	Administrative Director of the Courts Review Date: <input type="text" value="10/5/2012"/>
<b>EXECUTIVE AND PLANNING (E&amp;P) COMMITTEE REVIEW</b>	
<b>E&amp;P REVIEW</b>	Executive and Planning Review Date: <input type="text" value="10/19/2012"/>

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# Chapter 10

## Other Issues

This chapter presents a review of several additional issues, including lease costs and location of AOC facilities.

### Leases

The AOC leases office space in San Francisco, Burbank, and Sacramento. The SEC has considered concerns that have been raised about the cost of the leases.

### Background

The AOC conducts its business from four leased spaces, including its main offices in San Francisco, regional offices located in Burbank and Sacramento, and a separate office in Sacramento housing the Office of Governmental Affairs. The regional offices house staff from multiple AOC divisions.

#### San Francisco

The AOC occupies office space at 455 Golden Gate Avenue, San Francisco. BANCRO and the Judicial Council Conference Center are located in the building. The AOC occupies a portion of the first floor, all of the third, fifth, sixth, and seventh floors, and part of the eighth floor.

This office building at 455 Golden Gate Avenue is owned and operated by the State of California and managed by the Department of General Services (DGS). Apparently, there is no formal lease, as DGS has assigned the space to a governmental entity and assesses a fair market rental value<sup>1</sup>. This office space contains 207,845 square feet and is leased at \$4.27<sup>2</sup> per square foot per month, and 10,655 square feet of storage space in the building is rented at a monthly rate of \$1.43 per square. The lease amount is adjusted usually every fiscal year. The total annual lease costs for the leased office and storage space is \$10,832,816.80<sup>3</sup>. There is no expiration date under the lease arrangement with DGS.

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<sup>1</sup> The rate charged by DGS includes a bond repayment component. Market rent for Class A office space in the Civic Center Area is approximately \$3.17 per square foot per month as of the second quarter of 2012.

<sup>2</sup> \$4.29 as of July 1, 2012

<sup>3</sup> \$9,428,383.97 for FY 12/13

Moving from this office would be problematic, since the AOC most likely would be required to negotiate a release from DGS or find an acceptable sublessor to take over the leased space.

#### Burbank Lease

The Burbank facility is located at 2255 North Ontario Street. This office building is located near the Burbank Airport, with 37,347 square feet of office space over two floors. The first floor is occupied primarily by OCCM personnel.<sup>4</sup> The second floor is occupied primarily by SRO and CCMS personnel.<sup>5</sup>

The lease term is \$3.17 per square foot per month.<sup>6</sup> There is an additional \$100 per month cost for the first floor relating to the existing HVAC system. Annualized, the expense is \$3.19 per square foot each month.<sup>7</sup> The lease rate for the second floor is \$3.1827 per square foot each month.<sup>8</sup> The lease agreement specifies the annual lease cost is \$459,203.28 for the first floor and \$968,368.32 for the second floor.<sup>9</sup> The total annual lease cost for the Burbank facility is \$1,427,571.60.<sup>10</sup> The lease cost for each floor increases to \$3.28 per square foot as of June 1, 2012,<sup>11</sup> with one option to renew for an additional five-year term extending through June 30, 2018. There is a “no early termination” condition in the lease agreement. The current lease term ends June 30, 2013.

#### Sacramento

The downtown office space, occupied by the Office of Governmental Affairs, is located within walking distance of the State Capitol, at 770 L Street. This office space, referred to as the Sacramento-Central facility, comprises 6,578 square feet on one floor, occupied exclusively by OGA. In February 2012<sup>12</sup> the AOC renegotiated the lease and reduced the leased footage. The total annual lease cost for this lease space is \$177,606<sup>13</sup>. The current lease term ends August 31, 2017. There is one three-year option to extend the lease, with the rental rate to be set at 95 percent of the fair market value as of the end of the initial lease term.

The North facilities consist of space located in two office buildings located at 2850 and 2860 Gateway Oaks, Sacramento. The lease of office space at 2850 Gateway Oaks consists of 36,368 square feet and is used by the Finance and TCAS divisions. The rental rate is \$2.10 per square foot per month.<sup>14</sup> The current lease term ends July 31, 2016. There are two three-year options with rent at fair market value.

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<sup>4</sup> OCCM relocated to 2nd floor to accommodate sublease of space for the last year of the lease term, reducing rent expenses by a total of \$329,082.

<sup>5</sup> ISD, OGC, OCCM

<sup>6</sup> \$3.28 effective as of July 1, 2012

<sup>7</sup> \$3.29 effective as of July 1, 2012; this rate includes \$100/mo HVAC charge

<sup>8</sup> \$3.28 effective as of July 1, 2012

<sup>9</sup> \$471,743.40 for the 1st floor; \$997,419.48 for the 2nd floor

<sup>10</sup> \$1,422,273.60

<sup>11</sup> \$3.28 effective as of July 1, 2012

<sup>12</sup> October 2011

<sup>13</sup> \$180,895.00 for FY 12/13

<sup>14</sup> \$2.15 effective as of August 1, 2012

The leased office space at 2860 Gateway Oaks consists of 28,263 square feet and is occupied by NCRO and OCCM. The rental rate is \$2.05 per square foot per month.<sup>15</sup> There are two three-year options with rent at fair market value. The combined annual lease cost for 2850 and 2860 Gateway Oaks is \$1,611,743.40.<sup>16</sup> The lease for this space includes a credit for one month's rent and a \$200,000 tenant improvement allowance, which was taken upfront as a rent credit during the 2011–2012 fiscal year.<sup>17</sup>

Previously, the AOC leased additional space at 2880 Gateway Oaks. That lease was terminated in May 2011.<sup>18</sup> AOC employees working at that office were relocated to the 2850 Gateway Oaks office building.<sup>19</sup> The leases for space at 2850 and 2860 Gateway Oaks were renegotiated,<sup>20</sup> resulting in a reduction of \$0.49 per square foot for space at 2850 Gateway Oaks and \$0.27 per square foot for space at 2860 Gateway Oaks.<sup>21</sup>

The comparative costs of the AOC-leased spaces are shown on the following chart.

LOCATION	AOC - LEASEHOLDS				
	AOC Divisions Using Leased Space	Square Feet Leased	Monthly Lease Cost Per Square Foot	Annual Lease Cost	Lease Expiration Date
<b>Burbank</b>					
1st Floor	OCCM	11,992	3.191039	459,203.28	June 30, 2013
2nd Floor	SRO & CCMS	25,355	3.1827	968,368.32	June 30, 2013
TOTAL		37,347		1,427,571.6	
<b>Sacramento–North</b>					
2850 Gateway Oaks	Finance & TCAS	36,368	2.1	916,473.6	July 31, 2016
2860 Gateway Oaks	NCRO & OCCM	28,263	2.05	695,269.8	July 31, 2016
2880 Gateway Oaks	–	0	0	0	Terminated
TOTAL		64,631		1,611,743.4	

<sup>15</sup> \$2.10 effective as of August 1, 2012

<sup>16</sup> \$1,526,989.77 for the 2012-2013 fiscal year; includes termination of 4th floor at 2850 Gateway Oaks

<sup>17</sup> One month's rent in the amount \$57,939.15 and a \$197,841 TI Allowance (\$7/psf) for a total rent abatement of \$255,780.15.

<sup>18</sup> Savings of \$203,702.40

<sup>19</sup> Termination option renegotiated into 2850 Gateway Oaks lease. Option exercised 6/27/2012; 4th floor scheduled to be vacated upon effective date of 10/26/2012, resulting a rent reduction of \$120,300.68 in the 2012-2013 fiscal year and a savings of \$690,377.08 over the term of the lease

<sup>20</sup> Combined savings of \$1,744,206.06 over the terms of both leases; includes one free month's rent and TI Allowance

<sup>21</sup> Savings of \$0.41/psf for 2850 Gateway Oaks and \$0.20/psf for 2860 Gateway Oaks

<b>Sacramento–Central</b>					
770 L Street	OGA	6,578	2.25	177,606	August 31, 2017
<b>San Francisco</b>					
Office Space	All	207,845	4.27	10,649,977	None
Storage Space	All	10,655	1.43	182,839.8	None
TOTAL		218,500		10,832,816.8	
<b>TOTAL FOR AOC LOCATIONS</b>		327,056		14,049,737.80	



Updated chart for FY 12/13 as of August 2012

LOCATION	AOC Divisions Using Leased Space	Square Feet Leased	Monthly Lease Cost Per Square Foot	FY 12/13 Annual Lease Cost	Lease Expiration Date
<b>Burbank<sup>22</sup></b>					
1st Floor	None (occupied by subtenant)	0*	1.028	149,159.40	June 30, 2013
2nd Floor	OCCM, OGC & ISD	25,355	3.278	997,419.48	June 30, 2013
TOTAL		25,355		1,146,578.88	
<b>Sacramento–North</b>					
2850 Gateway Oaks	Finance & TCAS	29,512	2.30	816,175.32	July 31, 2016
2860 Gateway Oaks	NCRO & OCCM	28,263	2.1	710,814.45	July 31, 2016
2880 Gateway Oaks	–	0	0	0	Terminated
TOTAL		57,775		1,526,989.77	
<b>Sacramento–Central</b>					
770 L Street	OGA	6,578	2.2917	180,895	August 31, 2017
<b>San Francisco</b>					
Office Space	All	169,269 <sup>23</sup>	4.1839 <sup>24</sup>	9,490,447.72	None
Storage Space	All	10,655	1.4254	182,251.13	None
TOTAL		179,924		9,672,698.85	
<b>TOTAL FOR AOC LOCATIONS</b>					
		269,632		12,527,162.50	

<sup>22</sup> At the start of FY 12/13, the relocation or contraction of the current space at lease expiration on June 30, 2013 will result in a reduction in rent to \$305,856.00 for FY 13/14.

<sup>23</sup> At end of FY 12/13.

<sup>24</sup> Average for FY 12/13.

## Discussion

The AOC spends more than \$1,150,000<sup>25</sup> per month on leased office space — an annual total of \$13,866,898<sup>26</sup> — plus an additional annual charge of \$182,839.8<sup>27</sup> for storage space for its San Francisco space.

Comparatively, the rental rates for the leased office spaces in Sacramento (\$2.10 per square foot at 2850 Gateway Oaks<sup>28</sup>; \$2.05 per square foot for 2860 Gateway Oaks<sup>29</sup>; and \$2.25<sup>30</sup> per square feet at 770 L Street) are approximately half the \$4.27<sup>31</sup> per square foot rental rate assessed for the government-owned building in San Francisco. This is consistent with historically lower commercial and residential lease rates found in Sacramento, compared with those in San Francisco.

Additionally, it is apparent from site visits to the leased spaces that not all lease space is utilized. If recommendations for reducing staffing levels are followed, the need for leased space will decrease.<sup>32</sup>

## AOC Headquarters Location

The AOC has operated from headquarters in San Francisco since 1961. Its offices are located in the same building as the California Supreme Court.

It is usual for most enterprises, public or private, to consider their costs of operation and location. Given the comparative lease costs discussed above, there is reason for the AOC to reevaluate its office locations, including its headquarters space in San Francisco. Such review should be part of the organization's long-term business planning. In this case, the considerations should include a consideration of costs and benefits, both economic and political.

From a strictly economic standpoint, lease costs are generally lower in Sacramento than San Francisco. Labor costs generally are lower as well. the AOC partly recognizes this through its geographic pay differential system, whereby some Sacramento region employees are paid 7 percent less than San Francisco-based employees performing the same type of work.

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<sup>25</sup> \$1,028,742.61 monthly average for FY 12/13

<sup>26</sup> \$12,344,911.37 for FY 12/13

<sup>27</sup> \$182,251.13 for FY 12/13

<sup>28</sup> \$2.15

<sup>29</sup> \$2.10

<sup>30</sup> \$2.30 as of September 1, 2012

<sup>31</sup> \$4.29 as of July 1, 2012

<sup>32</sup> Current AOC occupied square footage is 310,493, reduced by 11,992 square feet in Burbank. As of July 1, 2013, AOC occupied square footage is scheduled to be reduced further by 54,888 to 255,605.

From a political standpoint, relocating AOC operations to Sacramento may be beneficial by placing the judicial branch administration closer to the Legislature, the executive branch, and governmental agencies. The importance of a strong political and legislative presence at the capital cannot be understated. Future success of the judicial branch in obtaining funding, and in advancing legislative goals, will be based partly on establishing strong relationships and credibility with legislators, legislative staff, and the Governor's Office. Access and interactions with key executive branch agencies, such as the Department of Finance, may be improved with AOC headquarters located in Sacramento.

One current legislative proposal would require all state agencies and the judicial branch to relocate their headquarters to Sacramento by 2025 (Assembly Bill 2501).

While no recommendation is offered concerning legislative proposals, possible relocation of AOC headquarters should be considered in the course of long-term planning for the judicial branch. That planning should be based on a cost-benefit analysis, taking into account economic, political, and other relevant factors.

## Recommendations

The following recommendations are made regarding leases and location of operations.

**Recommendation No. 10-1:** The AOC should renegotiate or terminate its lease in Burbank. The lease for the Sacramento North spaces should be reviewed and renegotiated to reflect actual usage of the office space. The AOC should explore lower-cost lease options in San Francisco, recognizing that DGS would have to find replacement tenants for its space.<sup>33</sup>

**Recommendation No. 10-2:** As part of its long-term planning, the AOC should consider relocating its main offices, based on a cost-benefit analysis of doing so.

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<sup>33</sup> In FY 11/12, the Sacramento North leases were negotiated mid-term for rent reduction. The AOC also exercised a termination option to relinquish a portion of the space under one lease, which will become effective in October 2012. The lease for the OGA office was renegotiated in FY 11/12 to contract the space mid-term. In FY 12/13, the AOC negotiated an Interagency Agreement with the California Public Utilities Commission for temporary occupancy of the entire 7th floor. In FY 12/13, the AOC entered into a sublease for a tenant to occupy the entire first floor of the Burbank office; upon the expiration of the lease, the office will move into a space that is approximately one-third of the current leased space.

## AOC SPACE AND RENT REDUCTION

AOC Office	FY 2011/12		FY 2012/13		FY 2013/14	
	SF	Rent	SF	Rent	SF	Rent
NCRO	64,631	\$ 1,376,627	57,775	\$ 1,526,990	57,775	\$ 1,505,413
OGA	6,578	\$ 192,172	6,578	\$ 180,895	6,578	\$ 184,842
SRO	37,347	\$ 1,422,274	25,355	\$ 1,146,579	11,328	\$ 305,856
San Francisco	218,500	\$ 10,822,626	179,924	\$ 9,672,699	179,924	\$ 9,698,880
<b>FY Total</b>	<b>327,056</b>	<b>\$ 13,813,699</b>	<b>269,632</b>	<b>\$ 12,527,162</b>	<b>255,605</b>	<b>\$ 11,694,991</b>
<b>Change from Prior Yr</b>	<b>(10,698)</b>	<b>\$ (237,277)</b>	<b>(57,424)</b>	<b>\$ (1,286,537)</b>	<b>(14,027)</b>	<b>\$ (832,171)</b>
<b>Cummulative Change</b>	<b>(10,698)</b>	<b>\$ (237,277)</b>	<b>(68,122)</b>	<b>\$ (1,523,814)</b>	<b>(82,149)</b>	<b>\$ (2,355,985)</b>

**Notes:**

1. FY 2010/11 total AOC rent was \$13,813,699 (SEC/JCC report uses \$14,049,738 without reference dates; difference may be attributable to use of calendar or lease year versus fiscal year in this analysis).
2. Exercised option to terminate 2850 Gateway Oaks, 4th floor space effective 10/26/2012.
3. NCRO rent increases in FY 2012/13 due to majority portion of negotiated rent reduction taken in one month of FY 2012/13 and smaller annual reductions taken over balance of lease term.
4. OGA office relocated to smaller premises at lower negotiated rate in FY 2011/12; no ability further reduce and sublease portion of premises.
5. SRO 1st floor (11,992 SF) sublease and consent executed 6/15/2012; occupancy commenced 6/28/2012.
6. Assumes SRO Relocation to 11,328 SF upon 6/30/2013 lease expiration; prelim. headcount verified by Exec. Office May, 2012.
7. Agreement on business terms of assignment of San Francisco 7th floor to State Public Utilities Commission on 6/13/2012; MOU with DGS signed.
8. FY 2013/14 San Francisco rent estimated to increase 3% over FY 2012/13.
9. Tenant improvement expenses, if any, and brokerage commissions not included.
10. Previously-reported space and rent reduction in San Francisco no longer feasible due to increase in BCDC programmatic requirement.