



State of California • Arnold Schwarzenegger, Governor
State and Consumer Services Agency

DEPARTMENT OF GENERAL SERVICES

Executive Office

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October 11, 2010

The Honorable Denise Moreno Ducheny, Chair
Joint Legislative Budget Committee
1020 N Street, Room 553
Sacramento, CA 95814

Attn: Jody Martin, Principal Consultant

Dear Senator Ducheny:

Pursuant to Chapter 20, Statutes of 2009 (AB 22, Fourth Extraordinary Session, Evans), the Legislature authorized the sale and long-term lease of specified State-owned Buildings by adding Section 14670.13 to the Government Code. Governor Arnold Schwarzenegger signed this bill into law on July 28, 2009, recognizing the need to address the State's fiscal emergency he declared by proclamation on July 1, 2009, pursuant to the California Constitution.

Therefore, pursuant to Section 14670.13(e) of the Government Code and by virtue of this letter and all enclosures, I am notifying the chairs of the legislative fiscal committees of the terms and conditions of the transaction, including, but not limited to, the financial terms.

Based upon an extensive evaluation of all proposals and offers, the Department of General Services (DGS) is awarding the sale of all 11 properties to California First, LLC for \$2.330 billion. The purchaser, California First, LLC agrees to the sale and long-term lease terms and conditions as specified in Attachment A.

I am also providing results of our economic analysis comparing the costs of the proposed sale and leaseback transaction to the continued status quo ownership of the buildings. Attachment B summarizes the economic analysis on the sale leaseback proposal. As requested by the Legislature, we have extended our economic analysis beyond the 20-year term of this transaction to a total of 50 years. We strongly caution, however, that economic analysis beyond 10 years in this industry is rare. Forecasting the cost drivers included in this analysis beyond 20 years becomes increasingly speculative and significantly diminishes the confidence of the analysis.

The economic analysis detail can be viewed at:

<http://www.documents.dgs.ca.gov/resd/SaleLeasebackEconomicAnalysis.pdf>

The Honorable Denise Moreno Ducheny, Chair
Joint Legislative Budget Committee

-2-

For clarification, among the properties to be sold is the entire Franchise Tax Board Building Complex located in the City of Sacramento (the "FTB Complex"). The FTB Complex is listed in the State Property Inventory, which is the official register of State-owned properties, as being located at "9645 Butterfield Way" and is therefore listed at that location in Section 14670.13. The FTB Complex includes the entire set of FTB facilities including Phase I, Phase II, Phase III, the Central Plant and Warehouse, and any other structures, grounds or improvements located on the property. The current United States Postal Service addresses for the FTB Complex are "9645 through 9696 Butterfield Way. The wording in Section 14670.13 to the FTB Complex located at 9645 Butterfield Way is based upon the State Property Inventory and not current U.S. Postal Service addresses.

Thank you for your continued interest and support in this important endeavor. Should you have any questions or need additional information, please contact Laura Zuniga, Deputy Secretary, Legislation, State and Consumer Services Agency at (916) 653-3111.

Sincerely,



Ronald L. Diedrich
Acting Director

Attachments: Attachment A – Terms and Conditions
Attachment B – Economic Analysis Summary

cc: See attached distribution list