OVERHEAD COST EFFICIENCY AND ALLOCATION

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B.A., University of California, Davis, 2004

PROJECT

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OVERHEAD COST EFFICIENCY AND ALLOCATION

A Project

by

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Approved by:

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Monica Lam, Ph.D.  
Associate Dean for Graduate and External Programs  

College of Business Administration
Abstract

of

OVERHEAD COST EFFICIENCY AND ALLOCATION

by

Emily Pappas Brutlag

Statement of Problem
In addition to using the theories learned from the California State University, Sacramento MBA program, this project uses a Sacramento, professional lobbying firm as a case for similar firms to use in order to understand ways of improving expense efficiencies and allocating costs to more accurately reflect the true consumption of resources.

Sources of Data
This project examines a professional lobbying firm based in Sacramento. This project assessed the firm’s balance sheets, income statements, and financial statements for 2008, 2009, and from January through October 18, 2010 to determine whether operating costs can be made more efficient and allocated to reflect the true consumption of resources.

Conclusions Reached
It is necessary for a firm to question if the expense allocation method currently used accurately reflects the consumption of the resource.

_______________________, Committee Chair
Feng Deng, Ph.D.

_______________________
Date

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Chapter 1

INTRODUCTION

Purpose of Report

In addition to using the theories learned from the California State University, Sacramento MBA program, this project uses a Sacramento, professional lobbying firm as a case for similar firms to use as a means to understand ways of improving expense efficiencies and allocating costs to most accurately reflect the true consumption of resources. Efficiency can include reducing overhead costs or utilizing a particular resource more efficiently. For the most part all partners share the overhead equally; this report will look at whether costs should be allocated in a different way based on use. This is done through identifying and analyzing all operating costs of an existing political advocacy firm and determining whether operating costs can be made more efficient and allocated to reflect the true consumption of resources.

Scope of Report

A literature review identifies typical office operating costs and reviews what current literature states in regards to overhead cost reductions. A review of the political lobbying firm’s financial records then identifies all operating costs. An analysis is then performed to ascertain whether operating costs can be made more efficient and allocated accurately. This review establishes a gap between the theory and actual practice for how a professional lobbying firm can manage and allocate operating costs in an efficient way and attempts to provide advice to help close this gap.
In addition to using the theories learned from the MBA program, this project uses a professional lobbying firm as a case study to understand how to better manage costs to accurately reflect the true consumption of resources so that similar types of firms can learn from it.
Chapter 2

REVIEW OF LITERATURE

Definitions and Descriptions of Overhead Costs

Various literature sources have been reviewed covering company costs and potential practices used for reduction of costs. It was hoped that information found would be useful in the analysis of overhead expenses at relatively small service firms such as the one examined in this project that consists of four professional partners and two office staff. Before presenting the findings of this review, a discussion of cost and overhead definitions is in order.

Costs in a company are generally divided into operating costs and administrative costs. Operating costs are specifically tied to products and services while administrative costs are incurred on behalf of the business as a whole (U.S. Legal 2010). This administrative cost is commonly referred to as “overhead”.

The distinction between these types of costs is clearly demonstrated in manufacturing operations. Costs associated with production, such as raw materials, labor, energy, engineering and maintenance are considered operating costs. Employee’s salaries and benefits not directly associated with production, rent, utilities, advertising, insurance, and health programs, are considered administrative costs or “overhead”.

According to Wahby and Associates (2010) direct cost consists of the salary and wages paid to staff for work performed on client projects (direct labor) along with any sub-consultants, materials and other expenses specifically incurred for a client project.
Items of expense that are direct costs are not part of a company’s overhead. Indirect cost consists of that portion of a company’s payroll not associated with client projects such as vacation, sick, and general office time (indirect labor), along with benefits, taxes, heat, light, rent and other non-project-specific expenses. These indirect costs form what is considered as the overhead pool.

Comparing firm’s overheads can be difficult to understand as no two company’s overheads are going to be similar due to judgments that are made when setting up cost accounting systems. For example, as a matter of policy one firm may decide to charge administrative time directly to projects and invoice it to clients as a direct project expense. Another firm may decide it is not worth the bother and by policy classify all administrative time as indirect and include it in the firm’s overhead rate. All other things being the same, the first firm’s overhead will be less than the second firm’s overhead. Therefore, if one were not familiar with each firm, it would be difficult to draw a conclusion by comparing each firm’s overhead rate.

Wahby suggests that a company should calculate their firm’s overhead at the end of each monthly accounting cycle and dig into details deeply enough to fully understand why the overhead rate has changed the way it has from one month to the next. Furthermore, it is recommended that a company track a twelve-month rolling average overhead rate by adding the current month to the latest eleven months to look for long-term trends. Since overhead rates can be quite volatile from one month to the next, a
twelve-month average is a more suitable indicator for which to draw conclusions and base decisions.

Proper and complete identification of all factors that make up overhead is critical. Stephenson presents a detailed, comprehensive description of key overhead expenditure categories for determining overhead costs (Stephenson 2008, 53-59). Key categories for consideration of overhead expenditures are as follows:

- General Office Expenditures
- Communications Expenditures
- Wages and Fees
- Marketing Expenditures
- Website and E-Commerce Expenditures
- Transportation Expenditures
- Miscellaneous Expenditures

This source breaks down various potential costs for each of the above listed major categories and could be useful in identifying a firm’s overhead and monitoring overhead on a regular basis.

Alan Hauff (2010), a pricing expert and small business specialist for the University Outreach and Extension at the University of Missouri-St. Louis, devised a seven-step process for calculating overhead percentage. Once the overhead percentage is determined, pricing decisions can be made.
Factors in Reducing Operating Costs or Making Them More Efficient

Coyne (2010, 74-82) discusses strategies that managers can use to reduce overhead costs by ten, twenty, and thirty percent. His work suggests that managers will have to look at a combination of at least ten actions that will produce opportunities for administrative cost savings and recognize the proportional amount of organizational disruption that accompanies cost controls. Topics discussed include consolidating incidentals such as organizational events, resolving overdue personnel issues such as under-performing employees, eliminating interdepartmental liaisons, coordinating departments’ parallel activities such as purchasing, redesigning the hiring and performance management processes, and restructuring cross-department activities. Coyne states most departments can cut up to ten percent of costs without changing their interactions with the rest of the organization. According to Coyne, the following kinds of reductions are most common:

- Do away with discretionary, comfort, and non-mission-critical benefits and activities, such as holiday parties, event tickets, and tuition reimbursement. If that has already been done, try to consolidate what is left. For example, combine activities like training days and celebrations into single events. Also, combine events across multiple departments. Cross schedule the use of outside resources such as facilities or trainers.

- Take overdue personnel actions. All administrative departments have unresolved personnel issues. Cost savings can be accomplished by leaving vacant positions
open. Once that strategy is exhausted, restructure the jobs of individuals who are not fully busy and confront the issue of underperformers.

• Reduce spending on department management. Administrative departments typically use as much as twenty percent of their budgets to supervise and coordinate their own activities. This is common with departments with more than twenty employees. Coyne suggests that a firm should be able to reduce the number of hours devoted to supervision by about ten percent in each year as long as there has been little turnover.

• Gain control of miscellaneous spending. These can range from department supplies to telecom or computers. Coyne suggests that you almost find fifteen to twenty percent of spending that has not been managed closely.

• Hold down pay increases. Although it seems obvious, it is usually overlooked because managers typically believe that the members of his or her department are underpaid. Check with human resources to see where employees stand relative to the market place.

• Review past proposed productivity-enhancing suggestions during past budget cycles that were rejected and propose them again.

Reducing cost reductions by twenty percent requires removal of a significant portion of the work content from the department. Attempting to do the same amount of work with twenty percent less people is not recommended. Make it a goal to eliminate any work that exceeds the value. Identify and aggregate all opportunities to reduce
departmental workload and then redistribute the department’s remaining among the smaller number of jobs. To effectively eliminate work, Coyne suggests talk to counterparties to see how the workload of your department is shaped by others in the organization. Are their deadlines and requirements realistic and is there anything that can be done to eliminate exacerbation of your workload?

According to Coyne, achieving thirty percent or more cost savings involves the implementation of interdepartmental coordination. A lot can be accomplished by investigating how well the work of one department fits in with the work of other departments. An organization can be inefficient in total even though each group within the organization is efficient.

According to Bain and McKinsey (2009, 19), managers tend to want to apply quick fixes during economic downturns. Typically, companies were quick to cut operational overheads that made it subsequently difficult for executives to manage day-to-day execution and service or to plan for further performance improvements to enable them to emerge from the recession successfully. The article suggests that squeezing suppliers is another short-term fix that can do more harm than good. Employee layoffs reduce costs in the short term but problems with a combination of severance expenses; loss of knowledge and trust, and subsequent hiring, training, and retention can exceed expected savings. The article reports that companies that have made drastic cuts or have leaned on suppliers believe that they can easily mend all business damage; however, these types of cuts may seriously damage the loyalty of employees and suppliers. They
soon recognize that generous spending is needed to regain their affections. Furthermore, these companies think heavy marketing, promotion, and service investments are required to win back customers who defected when they experienced quality reductions and cutbacks. Unfortunately, these subsequent spending increases often outpace growth, thus forcing companies to make cuts again. The article concludes that companies that successfully navigate recessions tend to manage costs relentlessly during both good and bad times. They maintain a long-term view and work hard at earning loyalty of employees, suppliers, and customers.

Towers Perrin Company (2008, 15-18) reported the results of a study of various business strategies taken by companies in 2008. Two of the three business actions with the highest “likely” ratings involved cost control: significant expense reductions and small-scale and targeted reduction in the workforce. Two of the four “most likely” actions dealt with expanded sales through new product offerings or expansion into new markets. Four of the five actions with the lowest to highly likely ratings were desperate measures that companies take when they cannot cover operating costs: large-scale reduction in workforce, major shift in business strategy, significant outsourcing or offshoring, and significant change in organization structure. The article concludes that businesses that “have kept their workforces lean and productive” are positioned to “withstand current economic headwinds”.

McKinsey and Company (2005, 1-16) presented a study of overhead cost-reduction programs at 230 companies. It outlines strategies that companies can follow
that both sustains reductions in overhead costs and revealed further cost-cutting opportunities maintained their cost savings through year two; and only twenty-four sustained their overhead cost. The study showed that only eleven percent of cost reduction programs sustained their cost savings for more than three years. Out of the 230 companies, 100 achieved cost reduction in overhead in the first year; 58 achieved reductions through the third year. It was suggested that this failure to reduce overhead and support costs are due to the tendency of top managers to focus on business growth or to push reduction programs that target operating, not overhead expenses and that most senior managers are reluctant to implement programs that lower morale and productivity. These effects accompany job losses that are part of overhead reduction programs.

McKinsey suggests that companies take a sequential approach to overhead reduction and look at three related factors that determine the cost structure of a company’s support functions: capabilities that specify what an organization can do; demand which indicates the extent to which these capabilities are used; and efficiency which addresses how well they are delivered. McKinsey suggests real life managers often jump right to efficiency issues and ignore broader questions about capability and demand. Managers need to address these overhead issues in sequence: capabilities, demand, and efficiency.

Rogers and Saenz (2007, 30) discuss a study of effective ways that business enterprises can reduce general and administrative expenses. The authors looked at restructuring of administrative functions such as finance, human resources and procurement to ascertain the most effective ways to reduce general and administrative
expenses. Most companies find three opportunities to extract value when downscaling their support services which include reducing use, redesign a process, or by fundamental restructuring.

In order to reduce, companies have to simplify what support functions are expected to deliver and eliminate nonessential activities by focusing on what is most important to the customer or the business. For example, reducing the number financial reports for an advertising company that they studied was an easy move to make. The article suggests that a more creative approach is to charge for services such as requiring business units to pay for reports from a shared market research function. Often, that reduces use. It also creates a market mechanism that favors the cost efficient, high-quality services. The study found that these types of changes were relatively simple to implement and accounted for an average of twenty-five percent of total savings in cost reduction.

Companies need to dissect their process when considering redesigning smarter support services. The key is to focus on the most essential processes and to eliminate steps that do not fully contribute to the business. Automation was suggested. One simple example involved a telecom equipment company providing its salespeople with software so they could pull up customer details and price quotes in real time, which improved their speed and efficiency while also reducing costs. This change also allowed the company to trim the sales administration and finance functions that managed and updated customer information. Another example involved bidding out for indirect expenses such as hotels
and travel, cleaning and maintenance services, telecommunications, and utilities. The study found that working smarter on the right process is typically harder than reducing demand, but it yields more savings that accounted for approximately thirty-five percent total savings.

Finally, although restructuring is the hardest to execute, it typically has the biggest impact, contributing to approximately forty percent of the total savings in the study. The goal of restructuring is to ensure that support services are located and organized so they can perform most effectively at a lower cost. Examples included consolidating services done in different locations into a regional shared service center or moving services out of the business units into corporate headquarters.

Nimocks (2005, 106-117) discusses various ways to manage overhead costs. The article reports that the process of lowering overhead costs sustainably is deeper and more subtle than most companies realize. There are four reasons that programs to reduce overhead are one of the most difficult forms of organizational changes to maintain. First, they tend to dampen morale by disrupting daily work rhythms. Secondly, managers want to enlarge the business, not trim it, so there is a temptation to focus back to expansion. Thirdly, all companies operate within an economic cycle and overhead-cost programs are often created in economic downturns and as growth revives, managers tend to avoid difficult decisions. Finally, managers in general track how operating costs change but often fail to pay attention to overhead costs with the result of cost increases that mount over time.
Strong leadership is needed to support a long list of proposed cuts in overhead. Initiatives led by committed executives can falter because of poor sequencing and inadequate design. Sustainable initiatives must be harnessed to long-term strategic objectives. When it is determined which overhead activities support business priorities, managers should focus on driving out inefficiencies. If this is not done, there is a risk that strategically important overhead activities are eliminated or nonstrategic activities are not cut. In either case, growth is impacted and the efforts in sustainability are undermined. Failure to sustain a cost-cutting program results in more than unchanged or higher costs, it can weaken a company’s resolve to deal with difficult issues and undermine the credibility of management.

The article suggests that companies that want to remove overhead costs in the long term must consider three related factors in sequence that determine the cost structure of an organization’s support functions: capabilities (specify what an organization can do), demand (the extent to which those capabilities are used), and efficiency (shapes how well they are delivered). A company should decide which capabilities are essential in its business strategies. Once this is done, it should look at demand, for example how often those capabilities are used. Once a company figures out which overhead capabilities to cut and reduce internal demand for overhead support, then it should address efficiency in delivering the remaining overhead activities.

The results of a small survey that examined strategies to reduce overhead costs indicated company CFOs support lower spending on general and administrative functions...
for example spending on human resources, finance and accounting, IT, purchasing and procurement, facilities management and risk management (Booz Allen Hamilton 2004, 8). Eighty-five percent of the CFOs interviewed consider cost reduction the highest priority they face. Approximately sixty percent are focused on reducing cost of providing overhead services by restructuring and standardizing the services that they provide. Forty-five percent of the CFOs are working with business units for overhead services to look for ways to manage and reduce demands for these services. Only three percent of the CFOs indicated that they have taken all possible steps to reduce overhead costs.

Penfield (2007, 30-36) discusses three areas in which supply chain costs can be reduced while keeping company performance high. The three areas are materials, processes, and overhead. The article suggests several techniques to reduce material costs. When looking at a process, four areas for review that impact costs are sustainability, core competency, waste, and variation. By focusing on these four areas, a company can substantially alter its cost structure and improve profitability. With regard to overhead, one easy way to drive down overhead is to eliminate or reduce employee workforce and related benefits. Benefits can make up twenty to thirty percent of a person’s overall salary so it may be beneficial to use part time or temporary workers for certain jobs. Locating a supply chain project in a particular country might result in tax savings. Finally, some companies are asking their suppliers to be on site and to actually order and manage their inventory. This can save a company personnel costs and allow the company buyers to focus on work that is more complicated.
Harkness (2009, 50-51) discusses how the global economic crisis has prompted companies to take a closer look on cost and performance and suggests a well-executed cost-reduction program will help build a leaner, nimbler, and more competitive business. The article suggests savings in the area of procurement can have a major impact on a company’s bottom line without having to go through the pain of employee reduction. Harkness states large companies can expect five to ten percent cost savings from procurement by taking the following actions:

- Consolidate orders-Different units compare their procurement activities to determine if there are significant overlaps. By combining the needs of separate orders into one order or by using one single supplier, a company can benefit by discounts of larger-volume orders.

- Obtain the best prices-It is not uncommon for different divisions of a company to purchase the same item at different prices. Savings can be obtained by a disciplined and coordinated approach to procurement.

- Source globally-It is not uncommon for companies to source locally because that is the way it has been done in the past. There is potential cost savings by finding offshore suppliers with more competitive rates including freight costs.

- Reduce product complexity- An analysis of product and components used in each department can determine unnecessarily high complexity. Companies can select more cost-effective options or identify superior ones by limiting the number of variants in all processes.
• Improve processes jointly—Collaborate with suppliers and investigate how their work can result in ways to save money and generate benefits to all parties. Do not treat suppliers simply as vendors; communication is vital between parties.

• Restructure relationships—Options to consider when dealing with a key supplier include joint ventures, strategic alliances and partnerships. Continuity of supply can come from a strategic relationship.

The next level of cost cutting beyond the ones suggested above can involve a deep, comprehensive approach to focus the entire company on cost cutting. The approach addresses more difficult areas such as curtailing pet projects, cutting in areas that in the past were seemingly untouchable, overhauling business models and making investment to avoid future costs. This approach results in successful companies forming new business models using a centralized, rather than a consensus-based decision-making approach and ensuring that the cost reductions are achieved quickly (within eighteen months) and are sustainable over the long term.

This level of cost cutting requires strong leadership with authority to enact change from the top through the deployment of internal teams and external support. These leaders will be faced with tough questions. Such questions include: Which products and channels shall be curtailed or eliminated, which capital projects should be delayed, downsized, or eliminated, how can the organization reduce complexity and bureaucracy, and how much should be invested in legacy technology?
Chapter 3

ANALYSIS OF THE DATA

Methodology

This project examines a professional lobbying firm based in Sacramento. The firm’s clients range from corporations to local municipalities. The firm consists of four equal partners with two staff, an office manager and scheduler. Further, the firm rents space to three tenants. This project assessed the firm’s balance sheets, income statements, and financial statements for 2008, 2009, and from January through October 18, 2010.

Identification and Description of Firm’s Overhead Costs

This project determined the firm’s overhead for the years 2008, 2009, and January through October 18, 2010. For comparison, as well as confidentiality purposes, the firm’s overhead will be expressed as a percentage of the firm’s net ordinary income (annual overhead/annual net ordinary income x 100%) for each of these periods.

Utilizing the total expenses for the entire firm, not per partner, the overhead percentage for the firm from January through December 2008 was 37.79%.

Table 1 illustrates the individual expenses of the firm and the individual expenses percentage of the firm’s total expenses in 2008.
Table 1: 2008 Expenses

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Percentage of total overhead (Individual expense/total expense)</th>
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<tr>
<td>Consulting Services</td>
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<tr>
<td>Accounting</td>
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<td>Bank Service Charges</td>
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<td>Bonus</td>
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<tr>
<td>Computer Services</td>
<td>1.12</td>
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<tr>
<td>Donation</td>
<td>1.04</td>
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<tr>
<td>General Office Expense</td>
<td>11.22</td>
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<tr>
<td>Insurance</td>
<td>1.27</td>
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<tr>
<td>Insurance-Worker’s Comp</td>
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<tr>
<td>Meals and Entertainment</td>
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<tr>
<td>Payroll Processing Fee</td>
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</tr>
<tr>
<td>Payroll taxes</td>
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<tr>
<td>Promotion</td>
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<tr>
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</table>

Utilizing the total expenses for the entire firm, not per partner, the percentage of total overhead for the firm from January through December 2009 was 22.07% of the firm’s net ordinary income.

Table 2 illustrates the individual expenses of the firm and the individual expenses percentage of the firm’s total expenses in 2009.
Table 2: 2009 Expenses

<table>
<thead>
<tr>
<th>January through December 2009</th>
<th>Percentage of total overhead (Individual expense/total expense)</th>
</tr>
</thead>
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<tr>
<td>Expenses:</td>
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<td>Computer Services</td>
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<td>Donation</td>
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<td>General Office Expense</td>
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<tr>
<td>Travel</td>
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<td>Parking and Tolls</td>
<td>5.06</td>
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<td>Total Expenses</td>
<td>100</td>
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</tbody>
</table>

Utilizing the total expenses for the entire firm, not per partner, the percentage of total overhead for the firm from January 1 through October 18, 2010 was 26.22% of the firm’s net ordinary income for 9 months and 18 days of 2010.

Table 3 illustrates the individual expenses of the firm and the individual expenses percentage of the firm’s total expenses in 2010.
Table 3: 2010 Expenses (partial)

<table>
<thead>
<tr>
<th>Expenses:</th>
<th>Percentage of total overhead (Individual expense/total expense)</th>
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<td>Computer Services</td>
<td>0.96</td>
</tr>
<tr>
<td>Donation</td>
<td>1.87</td>
</tr>
<tr>
<td>General Office Expense</td>
<td>10.86</td>
</tr>
<tr>
<td>Insurance</td>
<td>4.55</td>
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<td>Insurance-Worker’s Comp</td>
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<tr>
<td>Meals and Entertainment</td>
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<td>Payroll Processing Fee</td>
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</table>

Table 4 illustrates a comparison of the individual expense percentages for the last three years.
Table 4: Three-Year Expense Comparison

<table>
<thead>
<tr>
<th>Expenses:</th>
<th>January through December 2008</th>
<th>Percentage of total overhead (Individual expense/total expense)</th>
<th>January through December 2009</th>
<th>Percentage of total overhead (Individual expense/total expense)</th>
<th>January 1 through October 18, 2010</th>
<th>Percentage of total overhead (Individual expense/total expense)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consulting Services</td>
<td>N/A</td>
<td></td>
<td>5.11</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting</td>
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<td></td>
</tr>
<tr>
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<td>0.04</td>
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<tr>
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<tr>
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<td>0.96</td>
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<td></td>
</tr>
<tr>
<td>Donation</td>
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<tr>
<td>General Office Expense</td>
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</tr>
<tr>
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<tr>
<td>Insurance-Worker’s Comp</td>
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<td>0.22</td>
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<td></td>
</tr>
<tr>
<td>Meals and Entertainment</td>
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<td>0.41</td>
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<td></td>
</tr>
<tr>
<td>Payroll Processing Fee</td>
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<td>0.48</td>
<td></td>
<td></td>
</tr>
<tr>
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<td></td>
<td></td>
</tr>
<tr>
<td>Promotion</td>
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<td>0.95</td>
<td>1.53</td>
<td>1.53</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>21.74</td>
<td>33.86</td>
<td>32.93</td>
<td>32.93</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement</td>
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<td>3.56</td>
<td>4.09</td>
<td>4.09</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary</td>
<td>42.17</td>
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<td>21.76</td>
<td>21.76</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subscriptions</td>
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<td></td>
</tr>
<tr>
<td>Taxes (County, State, Others)</td>
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<td>3.25</td>
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<td></td>
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<tr>
<td>Travel</td>
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<td>0.69</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parking and Tolls</td>
<td>2.99</td>
<td>5.06</td>
<td>3.39</td>
<td>3.39</td>
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<td></td>
</tr>
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</table>
Table 5 illustrates each year’s percentage of total overhead from highest to lowest. Note the expense categories of rent, salary and general office expense are the largest expenses of the firm for the last three years. In 2008, salaries were a greater expense than rent because the firm had one extra employee. For all three years, the expense category of general office expense was the third largest cost, ranging from 11.22% to 14.58% to 10.86%. Note that year 2010 only includes nine and a half months but comparatively the numbers are similar to 2008 and 2009.
<table>
<thead>
<tr>
<th>Expenses:</th>
<th>January through December 2008</th>
<th>Expenses:</th>
<th>January through December 2009</th>
<th>Expenses:</th>
<th>January 1 through October 18 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>42.17</td>
<td>Rent</td>
<td>33.86</td>
<td>Rent</td>
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</tr>
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<td>25.87</td>
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<tr>
<td>Parking and Tolls</td>
<td>2.99</td>
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<td>Retirement</td>
<td>4.09</td>
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<tr>
<td>Promotion</td>
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<td>Taxes (County, State, Others)</td>
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<td>Telephone</td>
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<td>Payroll Tax</td>
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<td>Insurance</td>
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<td>Subscriptions</td>
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<td>Bonus</td>
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<td>Meals and Entertainment</td>
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<td>Bank Service Charges</td>
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<td>Consulting Services</td>
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<td>Consulting Services</td>
<td>N/A</td>
<td>Meals and Entertainment</td>
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<tr>
<td>Bank Service Charges</td>
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<td>Bonus</td>
<td>N/A</td>
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<td></td>
<td></td>
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<td>Bank Service Charges</td>
<td>0.04</td>
</tr>
</tbody>
</table>
Chapter 4
ANALYSIS OF WHICH OVERHEAD COSTS CAN BE MADE MORE EFFICIENT AND ALLOCATED CORRECTLY

As discussed in the literature review there are two types of costs in a company, operating and administrative costs where administrative cost is commonly referred to as overhead. As illustrated in Tables 1-5, all their expenses are administrative costs. As this project illustrates in the tables in Chapter 3, this firm incurs several expenses. The three largest overhead expenses for this firm over the three years are salary, rent, and general office expense.

In order to determine which overhead costs can be made more efficient and better allocated, this project uses two key questions:

Question 1: In order to improve the firm’s overall efficiency of how they do business as a unit, can this expense be made more efficient?

Question 2: Can this firm better manage/allocate costs to accurately reflect the true consumption of resources?

Concerning question 1, this project will examine whether the activities associated with expenses add value to the firm. The review was limited to examining the two major cost items, rent and general office expenses given their relative magnitude of contributing to over 50% of the overhead expenses each year. For purposes of this project, the salary cost category (which includes employee benefits) will be eliminated as the information is not something this firm will reduce. Therefore, this question will be answered by examining the rent and general office expense categories.
With respect to question 2, within this firm there are four partners that make-up the firm’s profit center. Revenue minus costs equals profit. The costs are made up of two types: direct and general costs. At this firm, these general costs are currently being allocated by a mechanism agreed to beforehand. Therefore, in order to answer question 2 this project analyzes whether the current method the firm uses to allocate costs accurately reflects the consumption of the resource.

This project first describes what the rent and general office expense categories consist of and then applies the two questions described above to each expense in order to distinguish if such expense can be made more efficient and accurately allocated.

**Rent**

The expense of this firm’s rental lease must exist as the firm must have office space in Sacramento near the state Capitol Building. Therefore, this expense does provide a value.

*Question 1 In order to improve the firm’s overall efficiency of how they do business as a unit, can this expense be made more efficient?*

In order for the firm to improve such an expense one can do some or one of the following: look for a comparable office space, look for a better price, and look at the pros and cons of having tenants in addition to the firm’s partners.

The current lease is at the Esquire Building, 1215 K Street, Suite 1010, Sacramento, CA 95814.

The firm’s current lease:
$x/month (based on $y rentable square foot). From and after the extended term commencement date, the base rent with respect to the Leased Premises is as follows:

<table>
<thead>
<tr>
<th>Period of Extended Term</th>
<th>Rent per sf</th>
<th>Monthly Base Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Months 1 - 12</td>
<td>$y</td>
<td>$x</td>
</tr>
<tr>
<td>13-24</td>
<td>$y + 05</td>
<td>$x + $191.85</td>
</tr>
<tr>
<td>25-36</td>
<td>$y + .10</td>
<td>$x + $383.70</td>
</tr>
<tr>
<td>37-48</td>
<td>$y + .15</td>
<td>$x + $575.55</td>
</tr>
<tr>
<td>49-61</td>
<td>$y + .20</td>
<td>$x + $749.40</td>
</tr>
</tbody>
</table>

The firm has a five-year lease from January 1, 2009 to January 31, 2014 but the option to leave at three years as long as the firm provides notice 2.5 years into it.

The office is 3,837 rentable square feet. The firm has four partners and each partner has his/her own office. They have a conference room, copier/storage room, back storage space, and a kitchen.

In addition, the office space has four extra offices, three of which are rented to tenants and a forth with no window that the firm’s clients use when they are in town. The space also has a large sitting area when one walks in where the receptionist is and another seating area behind this where the office manager sits.

When examining such an expense this project analyzes the following questions:

1. Are the prices/terms the firm currently has “good” for real estate in Sacramento now given the economy?
2. Is there comparable space in the nearby vicinity or same building for less? Most of this firm’s work is done in the Capitol Building, so the firm needs to be located close to it.

3. Given the firm’s current tenants are not an official part of the firm, is there a better option for the firm that has just four offices (for the four partners) (or even five offices so they can have an extra space for clients when in town) plus the area for a receptionist and office manager in addition to a conference room, copy room, and kitchen rather than having the three to four additional offices they currently have to rent out to tenants? For example, is there space available like what the firm currently has minus the three to four extra offices?

In the appendix is a list of comparable buildings with their asking rents and detailed information from a commercial leasing broker that was reviewed for this project.

After discussion with a commercial real estate broker, the current rate this firm is being offered for the extension term is high given the current conditions. However, this is most likely because it was negotiated in the original lease. The downtown Sacramento market is tight for Class A space, but because of the down economy there are landlords who may give a few months of free rent in addition to a lower rent.

In addition, this firm may be taking on more space than they should. If it were a benefit from a business standpoint to sub-lease offices, then it would simply be a cost of doing business. However, because of current economic times, it may be best to shrink down to 2,500 SF and ask the landlord to reduce the renewal rate.
In addition to the comparable buildings in the appendix, the Senator Hotel and Meridian Building are office spaces in close proximity to the Capitol. The Senator building’s smallest space is ±5,000, which can be demised. However this does not seem viable because the cost of doing so would put the firm back in the same price point as their current renewal. Similarly, the Meridian Building at 1415 L Street also has large blocks of space, but nothing in the firm’s size range.

Going forward, this firm’s partners need to decide if it is worth it to continue with the current situation they have at the current price or better to use the current economic times to leverage the commercial leasing agent for a better price. Further is it better to get a smaller space for just their firm’s partners and employees rather than have a larger space they must rent to tenants, as they currently do.

*Question 2: Can this firm better manage/allocate costs to accurately reflect the true consumption of resources?*

This firm’s four partners currently pay rent based on their generalized office size. For example, one partner’s office is much larger and therefore (s)he pays more. Another partner has a slightly larger office than the remaining two partners who have an equal office size and (s)he pays more than the two partners do but not as much as the partner with the largest space. The three tenants just pay a monthly cost that is not based on any mathematical calculation or office size. So the current allocation for rent is based on who uses more space. This project concludes this method is an appropriate way for allocating rent per partner however, this firm and firms alike can go one step further in allocating
this cost more accurately. This would be done by measuring the square footage and charging each partner and tenant based on the amount of square footage of their own office and then equally dividing the cost of the general office space between partners and tenants equally.

**General Office Expense**

This expense category consists of several items. This project has listed all the individual expenses that make up the general office expense category into three groups based on the nature of how they are consumed. They are:

- **Group A:** Can be allocated more efficiently or current allocation is correct.
  - Exotic Plants
  - Give Something Back/Sierra Office Supply
  - Safeway
  - Sierra Spring Water
  - Bill Room
  - Statenet

- **Group B:** Can be traced back to which partner consumes the resource.
  - Legislative Bill Delivery Service
  - Lexis Nexis
  - Comcast
  - FedEx

- **Group C:** Currently efficient thus “Beyond the scope of this paper.”
De Lage Landen – copier lease vendor
Smile Business Solutions – copier service/supply vendor
Taylor Made – coffee service
Pitney Bowes
Pair Design
Printing
Associated Pension
Capitol Webworks

This project examines every expense that falls under the general office expense category. For those expenses that are currently efficient, meaning the answer to question 1 is there is no way to improve the efficiency of this expense, this project does not analyze it further and simply states “Beyond the scope of this paper.” These expenses fall under Group C and for purposes of this project will not be included in the scope.

Group A: Can be done more efficiently or current allocation is correct.

Exotic Plants
Give Something Back/Sierra Office Supply
Safeway
Sierra Spring Water
Bill Room
Statenet

Plants
This firm pays $354 per month for a plant rental service through Exotic Plants and the cost is broken down into the plant rental, blooms (the orchid they keep on the reception desk) and the maintenance of the plants. After examining the monthly bills over the last three years, the cost is generally the same every month given the firm generally keeps the same type and number of plants in the office. The monthly plant maintenance is once a week at which point the plant service waters the plants, removes dead material, delivers new plants, takes out the old ones, and dusts the leaves.

The bloom part of the expense refers to a flowering plant and this firm only has one in their office, which is the orchid on the reception desk.

The remaining plants fall under the monthly plant rental. These plants are:

- 1 small plant on the front room coffee table
- 1 large plant in the front room corner
- 1 small plant on front room side table
- 1 medium plant next to the cabinet behind the receptionist’s desk
- 1 large plant in the corner, facing their office manager’s desk
- 1 small plant on the back room coffee table
- 1 large plant in the corner of the back room
- 2 large plants in the conference room
- 1 large plant in tenant office
- 1 large plant in hallway
- 1 large plant in Partner 1 office
o 1 large plant in Partner 2 office

o 1 large plant in Partner 3 office

o 1 small plant in Partner 1 office

o 1 small plant in the back conference room

According to this survey, the office rents 16 plants plus the 1 bloom for a total of 17.

**Question 1:** In order to improve the firm’s overall efficiency of how they do business as a unit, can this expense be made more efficient?

This expense category is difficult in assessing whether such an expense should exist or is offering value. The plants are adding value to the extent they make the firm’s office look nice. That being said, a client would most likely not consider this as a deciding factor for hiring them. If you want to assume these plants are adding some kind of value, there are ways to improve such expense cost. This firm could get a bid from another plant service company, could have no plants at all via a service and each partner could buy their own plants if one chooses to, could have less plants, or the firm could buy plants from a store and conduct the maintenance on their own.

In regards to getting a competitive bid, this project asked a competitive company The Tropical Plant House for a cost proposal for the same type of service and number of plants the office currently gets from Exotic Plants. Their price came in at $324.62/month compared to $354/month through Exotic Plants. This price difference would only save on average $30/month or $352/year which is still only 0.09% of the total expenses for 2009.
Another option is the firm purchasing their own plants and maintaining them themselves. At Trader Joes one can purchase orchids ranging from for $7.99-$19.99. Such orchids are of high quality and do last for at least a month. The current company providing one orchid plant to the firm charges $39/month. Therefore, this would provide a $19-$31 savings a month on just one plant or $228-$372 savings a year.

- Cost per Orchid a month:
  
  
  Exotic Plants: $39.00
  
  The Tropical Plant House: $32.00

- Monthly Service Cost:
  
  Office manager or receptionist: Free
  
  Exotic Plants: $100.00
  
  The Tropical Plant House: $130.00

- Monthly Plant Rental (including plant containers)
  
  Exotic Plants: $187.00
  
  The Tropical Plant House: (Plant lease 14 units: $70, Container lease 16 units: $35, Bromeliad Lease: $9.95= Total: $115.00)

Office Option: No plants: Free; Partners buy their own plants; Partners buy their own plants and split the cost of plants for the front office space and conference room; or Keep the same amount of plants and purchase them rather than paying a monthly plant and container rental fee.
If the firm were to purchase their own plants, someone from the firm would need to go to Trader Joe’s once a month to purchase the orchid. Regarding the purchase of the larger plants, this would be a one-time travel to a store to buy them. Finally rather than paying money for a weekly service of the plants, the firm’s office manager and receptionist would have to spend time watering the plants, removing dead material, and dusting the leaves.

*Question 2: Can this firm better manage/allocate costs to accurately reflect the true consumption of resources?*

Currently each partner is paying for the plants equally. If the firm decides that having plants in the office is something that adds value to the firm then because everyone benefits from the plants it makes sense to split the cost equally. That being said some of the partners have plants in their individual offices that all the partners are equally paying for. Again, to make such cost accurately reflect the consumption of the resource, those partners that choose to have a plant in their office through this service should pay the increased cost of the plant while those that do not choose to have a plant in their office via this service should have their cost go down.

**Give Something Back/Sierra Office Supply**

The firm utilizes this company for purchasing office products.

*Question 1: In order to improve the firm’s overall efficiency of how they do business as a unit, can this expense be made more efficient?*
This firm had been using Sierra Office Supply but in order to get competitive pricing, this firm has also used Give Something Back Business Products. Their pricing is extremely competitive and at times better. This vendor also has good customer service. Having the two vendors available allows the firm to leverage two supply companies and thus deliver lower costs on their supply orders.

*Question 2: Can this firm better manage/allocate costs to accurately reflect the true consumption of resources?*

The range of order costs vary widely from as little as $18 to as high as $431. On average the firm’s orders range around $65.00 an order but fluctuates based on their office needs. The most expensive supply expenditures are paper and printer ink. With the smaller, more general office supply orders, the costs are absorbed by the partners collectively despite who uses what. Exceptions are made when orders are quite large. For example if one partner needs a lot of ink for their printer the office manager will separate those costs out to be paid by the individual partner. While this firm could get very technical and decipher how many pens each partner utilizes and charge based on the amount of resource used, this project concludes the current method for allocation is best. For the costs that are larger and easier to track such as ink cartridges, it is best for the partner who utilizes the product to pay for it. For the costs that are less and more difficult to track such as pens, posts-its and paper-clips, it is best to split the cost among the partners equally.

*Safeway*
The firm utilizes Safeway’s online shopping to purchase certain food items for the office. On average, the firm orders from them once a month however the office staff does buy things occasionally for the office from the farmer’s market for snacks like nuts and fruit. Safeway charges a $15 delivery charge + .48/mile fuel surcharge

- Most Frequent Items purchased:
  - Water: $5.49/case (usually 4 cases)
  - String Cheese: $5.49 pack
  - Granola Bars: $6.09/box
  - Almonds: $4.19 (1/2 lb)
  - Wheat Thins: $2.99 box
  - Popcorn $6.99
  - Soda 12 Packs: $6.59 each (40 oz minis)
  - Chocolate: $8.99 bag

**Question 1: In order to improve the firm’s overall efficiency of how they do business as a unit, can this expense be made more efficient?**

It is important to note most of the items purchased are for the office to consume, not clients. Therefore, when it comes to assessing this expense’s value, it becomes difficult, as this expense, other than the sodas and water, is not for the clients thus not providing them with a value. That being said, the food purchased under this expense could be providing value to the office employees who purchase and eat them and therefore are happier about the firm they work for and as a result they may be more inclined to work harder on the firm’s behalf. Given this potential value, if they firm wanted to improve such expense they could do one or some of the following:
In order to avoid the current Safeway delivery charge and possibly save money by purchasing in bulk (and not having to order a minimum) the firm’s office manager or receptionist could make a Costco run when necessary. Because their time may be better used performing tasks for which they were hired, the firm may want staff to do this task on a day when they have less official work to do. Another option is the firm could stop ordering such food for the office. However as discussed above this could then potentially eliminate the value these snacks are providing to staff. In addition, the monthly cost compared to the overall total expenses is minimal so such savings will not greatly affect expenses overall.

**Question 2: Can this firm better manage/allocate costs to accurately reflect the true consumption of resources?**

This expense makes sense to split evenly between the four partners because it would take too much time and effort to track who ate or drank what.

**Sierra Springs Water**

Each month in addition to the bottled water from Safeway, this firm gets Alhambra water for the cooler in their kitchen. The firm’s monthly bill is not flat although it does not fluctuate that severely. The firm pays based on the number of waters Sierra Springs Water delivers to the office @ $7.29 per 3-gallon bottle. In addition to this cost is the flat monthly lease for the hot and cold cooler which $14.45 a month.

Safeway’s bottled water costs, listed under Safeway notes, are $5.49/case + $1.75 CRV 35 pack= $7.24/case (usually 4 cases a month).
Question 1: In order to improve the firm’s overall efficiency of how they do business as a unit, can this expense be made more efficient?

After analysis, one can conclude a water expense should exist to some point because when clients or people attending meetings come to the firm’s office they provide visitors with bottled water. That being said, given the cost, rather than paying for both the bottled water and the Sierra Springs Water service, the firm could consider just using the Sierra Springs Water service instead of the bottled water service. On average, the firm buys four cases of bottled water per month totaling $28.96 a month on average or $347.52 a year. For this service the firm spent $361.92 from January through December 2009.

Rather than buying the bottled water, the firm could just use the rented cooler water. Because the office is equipped with a kitchen, when clients and people come over for meetings they could simply fill a pitcher with the cooler water and use ice from their freezer and provide cups (which they already have). This could serve to reduce the duplicative water costs and service as a way to “green” their office by no longer utilizing and throwing away the plastic water bottles. To go even further, the firm could get rid of both the bottled water and water cooler and instead buy a purified water pitcher or a water purifier faucet attachment. This would cut out both water expenses completely.

Similar to what was concluded in the Safeway expense review, one must decide are the savings in such expenses worth the potential loss of value? For example, do clients place a value on a firm providing them with bottled water?
Question 2: Can this firm better manage/allocate costs to accurately reflect the true consumption of resources?

Consistent to what was stated in the Safeway section, splitting the cost equally between all the partners, as the firm currently does, while the method does not accurately reflect the consumption of the resource, it would be too time consuming to figure out which partner drank how much water.

Bill Room

Question 1: In order to improve the firm’s overall efficiency of how they do business as a unit, can this expense be made more efficient?

This firm pays a one-time yearly fee for the package they get from the bill room that includes introduced bills, daily files and daily journals from both houses. Based on the firm’s data, they pay $3,420.19 a year for this service that is approximately 1% of the firm’s total expenses. One option to make this expense more efficient, or in this case to eliminate the cost, would be if everyone were to access the bills, files and daily journals online through each house’s respective website. This current service rate cannot be lowered as it is provided by the state through the CA Department of General Services. Further, because it is a state service there are no competitors that offer this service. However, this service is for the various documents the firm gets in print and the state does offer these services online for free.

Question 2: Can this firm better manage/allocate costs to accurately reflect the true consumption of resources?
The firm currently gets two items from this expense: bills and amendments and files. The bills come after a bill has been introduced and each time it is amended. This item is less time sensitive. The second item is the daily file. This item provides bills that will be heard in the days and weeks upcoming legislative hearings, in addition to a list of bills that will be heard on the floor and upcoming informational hearings. This item is time sensitive as it illustrates what will be heard each day. That being said, all of these items can be obtained for free online and available for print. The firm gets one set of bills for the office at a cost of $1450/year + 8.75% tax = $1,576.875. Each partner shares these bills to look through. Because some clients want to know what bills are amended and introduced the second they are, some partners review all of these online for free through the state’s website and print out or email the necessary bills and therefore do not review or even use the bills that come to them in print through this service.

Regarding the daily files, each partner gets a separate copy. Three of the four partners get one because one partner has chosen not to use one. They are $565 each/year + 8.75% tax = $614.4375 each/year * 3 copies = $1,843.3125 year for all three. Because this document is multiple pages long and something one carries around in the capitol on a daily basis, it is better to have a bound printed copy of it rather than printing one up.

Currently the total yearly cost of $3,420.19 a year for the two types of documents is split evenly amongst the partners totaling $855.0475 each. In order to accurately allocate the actual consumption of this resource, one should get charged for the item(s)
each partner uses. For example if one partner does not utilize the bills, this partner should only pay $614.4375 thus saving $240.61 a year.

**Statenet**

StateNet is the firm’s bill tracking and information service that costs $123.75 a month. This service allows for private files to be made for each client. Such files contain bills the partners are tracking for them including any notes, thoughts or plans of action the firm has for the bills. These private files are customizable (i.e. assigned to which partner, priority, support/oppose.) This online service also allows the firm to look up current and previous versions of bills, committee analyses, and when and where the bill will be heard. Further, the firm has a StateNet representative assigned to their account as a customer service representative who handles any troubleshooting the firm may have.

*Question 1: In order to improve the firm’s overall efficiency of how they do business as a unit, can this expense be made more efficient?*

For this project, two competitive bids were obtained. One from Capitol Track that bid $149 a month with a one-year contract and LegisWeb, which is $500 a year. The Capitol Track demo went well and overall it is a nicer system than StateNet given it has a little more to offer. However, the few additional functions it had to offer were not major enough to make the firm’s office receptionist inclined to want to switch. This competitive system does have a fundraising tracking system that lists all upcoming fundraisers. This is something the firm’s current service does not provide. Capitol Track would allow the firm to pay for this function solely. This is something the partners
should discuss purchasing because currently the firm’s receptionist must spend time
during the week collecting and compiling a list of upcoming fundraisers.

From this analysis it seems overall the system the firm currently utilizes has a
value and functions that the firm finds of importance. That being said, the firm should
focus on utilizing the program to get the maximum benefit from it. So rather than buying
or switching to new programs, one should first try to utilize current resources and
functions to make their firm more efficient.

*Question 2: Can this firm better manage/allocate costs to accurately reflect the true
consumption of resources?*

This resource’s cost is properly allocate amongst the four partners equally as
everyone utilizes the program similarly.

Group B: Can be traced back to which partner consumes the resource.

Bill Delivery

Lexis Nexis

Comcast

FedEx

Bill Delivery

Bill Delivery Service costs $110/month and this price has not fluctuated much
over the years. This cost is for the delivery service itself for the bills, journals and daily
files.
Question 1: In order to improve the firm’s overall efficiency of how they do business as a unit, can this expense be made more efficient?

This cost could be eliminated as our office manager or receptionist could pick up these items at the Capitol bill room each morning. That being said, this current service is adding value in a sense that the firm’s staff time is more valuable spent being physically in the office doing things in the morning like answering phones and getting the morning’s items together than spending approximately twenty minutes walking to and from the Capitol picking up such files. If this firm were in need of drastically cutting overhead, the partners should discuss cutting this expense because there is a free alternative to the current $1,320 spent a year.

Lexis Nexis

Lexis Nexis keeps this firm’s California Code books up to date. Each time a section of the California Code is updated, Lexis Nexis sends out an addendum for the books this firm keeps in their office.

Question 1: In order to improve the firm’s overall efficiency of how they do business as a unit, can this expense be made more efficient?

The firm pays Lexis Nexis each time they send these updates therefore these costs are dependent on how often and how much the code is changed. From January through December 2009, the firm paid $3,417.47/year or on average $284.79/month. From January to December 2008, the firm paid $280.96 per month on average. Regarding providing value, the information this service provides is of value. However,
leginfo.ca.gov, a web program, offers this same information free of charge online. There is a need for this information however there may be cheaper ways of obtaining the information therefore it is important to get bids and to assess the pros and cons of getting this information via hard copy from the service the firm currently utilizes or through a competitive service.

This project did get a competitive bid from Thomson Reuters for the same service the firm currently gets from the Lexis Nexis print version but they would also give the firm online access that is updated daily. This service would cost $179/month for four users so $2,148/year. This is less expensive than the current service the firm uses but the firm would no longer have the hard copy law books, as this service is all online.

Another option is dropping the service the firm currently has and using the free service online. The positive of this option is that it is free of charge and provides all of the information the firm needs. The negative is the firm would no longer have hard copy books should a partner prefer this method.

**Fed-Ex/Shipping**

*Question 2: Can this firm better manage/allocate costs to accurately reflect the true consumption of resources?*

The partners share the shipping costs since most of the shipping is client related and shipping costs are worked into the firm’s clients’ invoices. Occasionally there is an exceptionally large shipment and in such a case, the office manager would single out that
shipment for the respective partner to pay. These expenses must exist but the manner in which the expense is paid is something to discuss.

For the most part the four partners cover the cost of shipping packages equally. Because this is not done on a frequent basis and some partners may use the service more than others, it may be more equitable for the cost to be paid for by the partner doing the shipment. Furthermore, the four partners pay for the shipping of two of the three tenants. Again, the partners should look into whether the monthly lease payment the tenants pay is fair market value given it covers their rent, parking and shipping costs.

Cable

Comcast is the cable service this firm currently utilizes. The firm contacted this company for a bundled bid rate.

*Question 1: In order to improve the firm’s overall efficiency of how they do business as a unit, can this expense be made more efficient?*

Bundling the internet, television, and phone through Comcast may be cheaper than the separate rate the firm is paying now. This firm currently spends $472-$484 a month for cable television. Comcast’s bundled rate quoted $790/month for cable tv (which the firm currently has through Comcast), Internet (currently has through AT&T), and 10 phone lines (9 phone, 1 Fax through XO Communications). Based on the bills for each of these services, the firm is currently paying approximately $1,050/month on the low end and Comcast’s bundled bid could be a potential $360/month reduction. (Note
the firm would still have to pay for the (441) and two fax lines currently serviced by AT&T.)

*Question 2: Can this firm better manage/allocate costs to accurately reflect the true consumption of resources?*

Currently each partner pays for this expense equally. The four partners also pay for the cable television service in their tenants’ offices, which adds to the overall cost. Therefore, in order to accurately reflect the consumption of resources each tenants’ cost of cable service should be added to their expenses and subtracted from the partner’s cost.

Group C: Currently efficient thus “Beyond the scope of this paper.”

De Lage Landen – copier lease vendor

Smile Business Solutions – copier service/supply vendor

Taylor Made – coffee service

Pitney Bowes

Pair Design

Printing

Associated Pension

Capitol Webworks
Chapter 5

CONCLUSION AND RECOMMENDATION

After doing a thorough literature review, it was found that not a lot of research was available on overhead expense reduction of small, lobbying firms similar to the one examined in this project. Specifically much research has been done on how to reduce overhead costs primarily for manufacturing and large firms. Additionally even if there was information about small firms’ overhead, the literature reported it would be difficult to compare firms’ overheads because no two companies’ overheads are going to be similar due to judgments that are made when setting up cost accounting systems. Nevertheless, there was some useful information in the literature for large companies that would be applicable to this firm as discussed below.

From conducting a thorough analysis of a firm’s two large expense categories, rent and general office expense, there are several take-aways that similar firms can learn from pertaining to the two questions examined in this paper.

Some of the key conclusions from question 1, improving the firm’s overall efficiency of how they do business as a unit, include:

- Closely examine expenses that may provide value to the firm’s employees but not necessarily to the partners or clients directly. For example, in this case the firm pays for the snacks purchased from Safeway and the farmer’s market. While these snacks do not provide a direct benefit or use to clients, they may serve as an additional benefit to staff and as a result could increase employee morale.
Taking this one-step further, these kinds of expenses are not a large part of the general office expense category. On the other hand, the elimination or modification of several such expenses in total can add up to more significant savings to the firm overall. The firm’s partners need to monitor these types of expenses in order to ensure the costs are minimized and to decide whether they should be eliminated, keeping in mind there could be a decrease in employee morale.

- Certain expenses/services can be conducted by staff rather than paying a service; however, it is important to analyze the outcome of adding these responsibilities to the staff’s workload. For example paying a plant service to water and dust a firm’s plants is an expense that can be eliminated if a firm’s staff conducts these tasks themselves. While the savings may be attractive, it is important for a firm to assess if there is value or not in using their staff’s time conducting these new tasks rather than their typical duties. Another example is whether staff should pick up snack food versus having it delivered by a food vendor. A final example is whether a firm should pay a service to deliver legislative daily documents or have staff walk and pick them up for the office.

- Should a firm use electronic versus hard copy documents? Given today’s advanced technology, certain expenses are now provided online for free rather than paying an expense for a hard copy of such items. For example, the information provided by the Lexis-Nexis books is all now available online for
free. Cumulatively if a firm were to use the free online version, there would be firm savings. That being said various individuals might prefer one mode to the other, such as wanting a hard newspaper, book and print out rather than reading from and printing something from online. As a result, the firm’s managers need to openly discuss such decisions and preferences.

- Before cutting expenses or switching to another service provider, the firm’s managers should first attempt to utilize a product/service to its greatest capacity. For example, while competitors to Statenet may argue they have more to offer, firms should first learn to master all aspects of what a current product has to offer before searching for a new vendor.

While some or all of these recommendations can be something for a comparable firm to examine and consider, it is also pertinent to keep in mind some of the takeaways discussed in the literature review. For example, potentially useful items suggested by Kevin Coyne include gaining control of miscellaneous spending ranging from department supplies to telecom and computers. While firms such as the one addressed in this project do not have the luxury of multiple departments that can buy in bulk, this type of firm should examine these purchased items and ways to reduce or bundle them as discussed in the previous section.

As indicated in the literature review, there are opportunities for all firms to ask current suppliers/vendors for better prices and deals. The firm did this with their two office supply vendors as discussed in Chapter 4. In the literature review’s discussion of
the article “Managing Cutbacks in a Recession: Advice from Bain and McKinsey,” the authors state that companies typically cut overheads making future actions subsequently difficult. These points are very important for firms such as this to follow especially given the current economic downturn. Analyzing current supplier terms is discussed in this project so as this article suggests, it is important to not squeeze suppliers so much that the long-term harm outweighs the short-term financial gain in savings.

Conclusions from Question 2: Can this firm better manage/allocate costs to accurately reflect the true consumption of resources?

In order to best answer this question, it is necessary for a firm of this type and size to examine the cost allocation mechanism currently being used. As seen in this project, most costs were simply expensed equally to each partner. As a result, the amount of resource actually used by each person was not taken into consideration. This firm has four partners and it is therefore necessary to determine which cost allocation will be most fair in accurately allocating the expense. This paper proposes a new method of allocating overhead so each person can be paid what he or she truly earned. For firms of this size if the consumption of resources can be determined, then it is best to allocate that proportional cost to a partner rather than splitting it equally among the partners. If a firm cannot directly find an association of costs to the partners who use them, then the cost needs to be split equally amongst all those whom use the resource. From there a firm can then continue to establish if there is a better way to allocate such cost.
Pappas Downtown Office Survey

980 9th St - Park Tower

Location: Park Tower
AKA 917 9th St
Sacramento County Cluster
Downtown Submarket
Sacramento County
Sacramento, CA 95814

Landlord Rep: Jones Lang LaSalle
Developer: Grovewer International, Ltd
Management: CIM Group
Recorded Owner: CIM/980 9th Street (Sacramento) LP

Building Type: Class A Office
Status: Built 1991
Stories: 25
Area: 462,476 SF
Typical Floor: 18,209 SF
Total Area: 89,175 SF
% Leased: 83.9%

Parcel Number: 605-003-030, 609-003-038
Parking: 801 Covered Spaces @ $165.00/mo; Surface Spaces @ $185.00/mo; Ratio of 1.13:1,000 SF
Amenities: 24/7 Building Access, Banking, Card Key Access, Conference/Meeting Facilities, Corner Lot, Energy Star Labeled, Fitness Center, LEED Certified - Gold, LEED Registered, On Site Management, Restaurant

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## Pappas Downtown Office Survey

### 980 9th St - Park Tower (cont'd)

![Building Image]

### Building Notes

980 9th St. is the premier office building in downtown Sacramento. Designed by Kaplan McLaughlin Diaz, the property emulates the great art deco skyscrapers of the 1920's with its pattern of banded setbacks and clad limestone walls, granite columns, and polished marble floors. The three-story atrium lobby offers abundant light and walls adorned with commissioned murals by artist Richard Piccolo.

The property is ideally located in the heart of downtown Sacramento at 9th and J Streets, with close proximity to the State Capitol, City Hall, federal and state judicial buildings, and Capitol Mall; two blocks from Westfield Shoppingtown, downtown's major retail and entertainment center; and across the street from Cesar Chavez Plaza, a shady respite for a refreshing walk or shopping at the Farmer’s Market. The combination of vehicular access and public transportation is among the best in downtown Sacramento; most major freeway ramps are just several blocks away and the Sacramento airport is 20 minutes by car. RT bus stops at the property’s corner and light rail is one block away.

The building features a computer controlled HVAC and air-delivery system. It has 24-hour staffed security with control card access. There are observation cameras that monitor the parking garage, building entrances, and lobby. The 5-story parking garage totals 16,452 square feet.

### Floor Plan

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### CBRE

[CBRE Logo]

Address: 501 L Street, Suite 1100, Sacramento, CA 95814
Email: mcnamara@cbre.com
Phone: 916-453-5151
Fax: 916-453-5152

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Pappas Downtown Office Survey

980 9th St - Park Tower (cont'd)

980 9th St. offers three conference rooms, which can be combined to form one large conference room accommodating up to 128 people. The Conference Center offers audio/visual equipment, cable hook-up, and also offers an adjoining food preparation facility for catering services. Conference room and equipment rental and scheduling should be coordinated through the building office. Availability is on a first come, first served basis with a maximum 60-day advance booking.

The Fitness Center is available for tenants offering cardiovascular and weight lifting & conditioning equipment, showers and locker rentals. It is open 24 hours, seven days a week.

Ground floor retail tenants for 980 9th St. include Starbucks, La Bou, and Sushi Sushi.

This building is registered with the U.S. Green Building Council and is seeking LEED certification.

Folsom Corporate Center is adjacent to a multitude of new retail services including upscale restaurants and national retailers. The project when completed will contain almost 1,000,000 square feet of office space in a campus environment with rolling hills and oak trees throughout.

980 9th Street was awarded Office Building of the Year 2009 TOBY Award - Category of 250,000 - 499,999 Square Feet. (TOBY) Awards are the most prestigious and comprehensive programs of their kind in the commercial real estate industry recognizing quality in office buildings and rewarding excellence in office building management.

This building was awarded an Energy Star label in 2006, 2007, 2008, 2009 and 2010 for its operating efficiency.

In 2010, this building was awarded LEED certification at the Gold level by the U.S. Green Building Council.
### 1 Capitol Mall - One Capitol Mall

**Location:** One Capitol Mall  
Sacramento County Cluster  
Downtown Submarket  
Sacramento County  
Sacramento, CA 95814

**Building Type:** Class A Office  
**Status:** Built Jul 1992  
**Stories:** 8  
**BSA:** 281,707 SF  
**Typical Floor:** 32,009 SF  
**Total Area:** 54,902 SF  
**% Leased:** 81.4%

**Lender Rep:** Turton Commercial Real Estate  
**Developer:** Stagem Realty & Management  
**Management:** AKT Properties  
**Recorded Owner:** Redwood Plaza Investments

**Expenses:** 2008 Combined Tax/Ops @ $10.85/sf  
**Parcel Number:** 008-0136-007, 008-0136-007-0000, 008-0136-008, 008-0136-008-0000, 008-0136-009, 008-0136-009-0000, 008-0136-010, 008-0136-010-000, 008-0136-011, 008-0136-011-0000, 008-0136-012, 008-0136-012-0000  
**Parking:** 490 Covered Spaces @ $143.00/mo; Reserved Spaces @ $170.00/mo; Ratio of 3.00/1,000 SF  
**Amenities:** Conferencing Facility, Fitness Center

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**C.B. Richard Ellis**  
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Pappas Downtown Office Survey

1 Capitol Mall - One Capitol Mall (cont'd)

Building Notes

One Capitol Mall is an 8-story building with 28-foot high granite lobby with coffered ceiling and four Roman Columns of single cut stone which rise from floor to ceiling. The noise attenuation goes to 45 db at exterior wall.

The total capacity designated for the tenant floors is 7 watts per square foot, including lighting and power. Design loads are 100 pounds per square foot. Cooling for the building is provided by 2 centrifugal chillers with a total capacity of 500 tons (1 CFM per square foot). Heating is provided by electric radiant heating panels.

Common area corridors are oversized at 6 feet wide and 9 feet high. There are panoramic views of the Capitol and the Sacramento River. In addition, there is a patio area.
Pappas Downtown Office Survey

### 300 Capitol Mall - Emerald Tower

**Location:** Emerald Tower  
Sacramento County Cluster  
Downtown Submarket  
Sacramento County  
Sacramento, CA 95814

**Building Type:** Class A Office  
**Status:** Built 1984, Renov 1996  
**Stories:** 18  
**RSA:** 392,236 SF  
**Typical Floor:** 21,568 SF  
**Total Avail:** 27,480 SF  
**% Leased:** 95.8%

**Landlord Rep:** Jones Lang LaSalle  
**Developer:** JLB Company  
**Management:** Flynn  
**Recorded Owner:** 300 Capitol Associates NF LP

**Expenses:** 2008 Combined Tax/Ops @ $12.22/sf, 2007 Combined Est Tax/Ops @ $11.49/sf

**Parcel Number:** 006-0942-038

**Parking:** 783 Free Covered Spaces are available; Reserved Spaces @ $160.00/mo; Ratio of 2.00/1,000 SF

**Amenities:** Balconies, Bus Line, Courtyard, Energy Star Labeled, LEED Certified - Gold, On-Site Management, Property Manager on-site, Restaurant, Signage

<table>
<thead>
<tr>
<th>Floor</th>
<th>SF Avail</th>
<th>Floor Config</th>
<th>Bldg Config</th>
<th>Rent/Year x Size</th>
<th>Occupancy</th>
<th>Term</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>P 1st / Suite 120</td>
<td>3,479</td>
<td>3,479</td>
<td>3,479</td>
<td>$34.50/sf</td>
<td>50 Days</td>
<td>Negotiable</td>
<td>Direct</td>
</tr>
<tr>
<td>P 15th / Suite 1550</td>
<td>3,585</td>
<td>16,085</td>
<td>16,085</td>
<td>$34.85/sf</td>
<td>Vacant</td>
<td>5 yrs</td>
<td>Direct</td>
</tr>
<tr>
<td>Jones Lang LaSalle / Jason Goff (916) 447-0923 / Drew Peterson (916) 447-0200</td>
<td></td>
<td></td>
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<tr>
<td>P 15th / Suite 1550</td>
<td>4,577</td>
<td>16,085</td>
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<td>$34.80/sf</td>
<td>Vacant</td>
<td>5 yrs</td>
<td>Direct</td>
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</table>

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CBRE  
CB Richard Ellis
Pappas Downtown Office Survey

300 Capitol Mall - Emerald Tower (cont’d)

Building Notes

300 Capitol Mall was voted 1992 “Building of the Year” by the Building Owners and Managers Association (BOMA), Pacific Southwest Region. The stepped exterior features an arching facade of aqua-silver glass. There are fourteen (14) corner offices per floor with panoramic views and fifty-six (56) balconies. The lobby is a contrast between polished and flame-cut granite surfaces, accented by indirect lighting and numerous works of art.

There are lushly landscaped gardens along with wide boulevards highlighting the grand entry plaza. A stainless steel water sculpture by artist David Von Sothen is set in a reflecting pool surrounded by seating areas and additional outdoor sculptures by artist Fletcher Benton. The location provides 360-degree views of the Sierra Nevada, the State Capitol, Historic Old Sacramento, the Sacramento River, and the unique Diablo Mountain Range. It is strategically located at the gateway of Sacramento’s business, financial and government districts, just one block to Interstate 5, 10 blocks to Interstate 80, and 20 minutes from the Sacramento International Airport. It is also walking distance to shopping, restaurants, and the new Ball Park.

The building provides sophisticated 24-hour security and safety monitoring systems, zoned air-conditioning system. There is a restaurant/tel on the 6th floor. The parking ratio is 2 per thousand for unreserved parking at $115.00 a month.


In 2010, this building was awarded LEED certification at the Gold level by the U.S. Green Building Council.
Pappas Downtown Office Survey

400 Capitol Mall - Wells Fargo Center - Sacramento

Location: Wells Fargo Center - Sacramento
Sacramento County Cluster
Downtown Submarket
Sacramento County
Sacramento, CA 95814

Building Type: Class A Office
Status: Built Feb 1992
Stories: 30
BSA: 942,559 SF
Typical Floor: 19,009 SF
Total Avail: 52,233 SF
% Leased: 96.5%

Landlord Rep: Hines
Developer: William Wilson/Crocker Properties
Management: Hines
Recorded Owner: Hines VAF Sacramento Props LP II

Expenses:
2001 Tax @ $2.80/sf; 2007 Ops @ $11.38/sf
Parcel Number: 060-0144-029
Parking: 75 Covered Spaces @ $105.00/mo; Reserved Spaces @ $140.00/mo; Rate of 2.29% 1,000 SF
Amenities: 24/7 Building Access, ATM, Bank, Concourse, Dry Cleaner, Energy Star Labeled, Fitness Center, Food Service, Mall Room, On-Site Management, Property Manager on Site, Restaurant, Security System

<table>
<thead>
<tr>
<th>Floor</th>
<th>SF Avail</th>
<th>Floor Config</th>
<th>Bldg Config</th>
<th>Rent/Year/Space</th>
<th>Occupancy</th>
<th>Term</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>P 8th / Suite 650</td>
<td>3,253</td>
<td>13,843</td>
<td>18,859</td>
<td>$37.20/sf</td>
<td>30 Days</td>
<td>Negotiable</td>
<td>Direct</td>
</tr>
<tr>
<td>9th</td>
<td>1,402</td>
<td>13,843</td>
<td>18,859</td>
<td>$37.20-$38.00/sf</td>
<td>30 Days</td>
<td>3 yrs</td>
<td>Direct</td>
</tr>
</tbody>
</table>

Hines / Gwenee Gale (916) 923-5600

P 9th / Suite 640

The prestigious Sacramento building has easy access to Interstate 5 and Highway 50 and is within walking distance to downtown Sacramento restaurants, shopping, and business services.
Pappas Downtown Office Survey

### 4

#### 400 Capitol Mall - Wells Fargo Center-Sacramento (cont'd)

The prestigious Sacramento building has easy access to Interstate 5 and Highway 50 and is within walking distance to downtown Sacramento restaurants, shopping, and business services.

<table>
<thead>
<tr>
<th>Floor</th>
<th>SF Area</th>
<th>Floor Config</th>
<th>Mgr Config</th>
<th>Rent/Day Basis</th>
<th>Occupancy</th>
<th>Term</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>P 6th / Suite 950</td>
<td>5,119</td>
<td>13,843</td>
<td>19,899</td>
<td>$37.20-$38.00/sf</td>
<td>Vacant</td>
<td>3 yrs</td>
<td>Direct</td>
</tr>
</tbody>
</table>

**Notes:**
- Hines / Coxe & Coxe (916) 923-5600

P 6th / Suite 970
- Hines / Coxe & Coxe (916) 923-5600
- 2,065 SF
- Floor Config: 13,843 SF
- Mgr Config: 19,899 SF
- Rent/Day Basis: $37.20/sf
- Occupancy: Vacant
- Term: 3 yrs
- Type: Direct

P 6th / Suite 880
- Hines / Coxe & Coxe (916) 923-5600
- 2,007 SF
- Floor Config: 13,843 SF
- Mgr Config: 19,899 SF
- Rent/Day Basis: $37.20/sf
- Occupancy: Negotiable
- Term: 30 Days
- Type: Direct

P 6th / Suite 800
- Hines / Coxe & Coxe (916) 923-5600
- 3,000 SF
- Floor Config: 6,000 SF
- Mgr Config: 8,003 SF
- Rent/Day Basis: $37.05/sf
- Occupancy: Negotiable
- Term: 30 Days
- Type: Sublet

P 15th / Suite 1550
- Hines / Coxe & Coxe (916) 923-5600
- 1,469 SF
- Floor Config: 6,390 SF
- Mgr Config: 8,299 SF
- Rent/Day Basis: $37.20-$38.00/sf
- Occupancy: Vacant
- Term: 3 yrs
- Type: Direct

### Building Notes

400 Capitol Mall has plenty to offer its tenants including a fitness center with showers, saunas, day lockers, and a three-lane fifty-foot lap pool. There is also a private executive club with elegant dining and reception facilities, a car wash and detailing service, and of course, spectacular capital views.

The entrance to Wells Fargo Center is grand and unlike any other in the Sacramento Area. The entrance is a clear glass atrium, five stories high, which opens into a lobby of equal height clad in rich granites and marbles. The barrel-vaulted coffered ceiling, cherry wood platters and classical renaissance paving pattern on the floor, reflect the timeless and elegant architectural themes. The elegant lobby is also the setting for a Wells Fargo history museum.

The building's design, by architectural firm Hellmuth, Obata, and Kassabaum, consists of 502,365 square feet on one city block. The Wells Fargo Center facade is finished in alternating dark tempered glass and granite. In front of the main entrance, the plaza is paved in granite with palm trees and seasonal flowers.
Pappas Downtown Office Survey

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400 Capitol Mall - Wells Fargo Center-Sacramento (cont'd)

The building has 24-hour manned security, enhanced by a card access system and CCTV Cameras.

This building was awarded an Energy Star label in 2000, 2008, and 2009 for its operating efficiency. A series of high-efficiency retrofits and upgrades as well as good design, close attention to proper maintenance, and continual optimization of building systems and controls resulted in Wells Fargo Center earning the ENERGY STAR for superior energy performance. These retrofits and upgrades included the replacement of all building lighting with high-efficiency T8 fluorescent lamps with electronic ballasts.
### 520 Capitol Mall

**Location:** Sacramento County Cluster  
Downtown Submarket  
Sacramento County  
Sacramento, CA 95814

**Building Type:** Class A Office  
**Status:** Built 1981  
**Stories:** 8  
**RSA:** 91,158 SF  
**Typical Floor:** 16,609 SF  
**Total Area:** 16,571 SF  
**% Leased:** 92.2%

**Leased Rep:** CB Richard Ellis  
**Developer:**  
**Management:** BTV Crown Equities, Inc.  
**Recorded Owner:** BTV Crown Equities, Inc.

**Expenses:** 2018 Tax @ $1.63/sf  
**Parcel Number:** 006-0146-031  
**Parking:** 209 surface spaces are available; 100 surface parking spaces are available; Ratio of 2.86/1,000 SF  
**Amenities:** Corner Lot

<table>
<thead>
<tr>
<th>Floor</th>
<th>SF Area</th>
<th>SF Cargo</th>
<th>WP Cargo</th>
<th>Rent/SqFt/Year</th>
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<th>Term</th>
<th>Type</th>
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</thead>
<tbody>
<tr>
<td>P Thrd / Suite 230</td>
<td>2,772</td>
<td>8,206</td>
<td>8,206</td>
<td>$28.25/sf</td>
<td>Vacant</td>
<td>Negotiable</td>
<td>Direct</td>
</tr>
<tr>
<td>CB Richard Ellis / Lisa Stanley (916) 445-8291</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suite 239: 2,772 SF</td>
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<tr>
<td>P Thrd / Suite 250</td>
<td>3,454</td>
<td>8,206</td>
<td>8,206</td>
<td>$28.25/sf</td>
<td>Vacant</td>
<td>Negotiable</td>
<td>Direct</td>
</tr>
<tr>
<td>CB Richard Ellis / Lisa Stanley (916) 445-8291</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suite 250: 3,454 SF</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P 4th</td>
<td>1,697 - 10,365</td>
<td>10,365</td>
<td>10,365</td>
<td>$21.00/sf</td>
<td>Negotiable</td>
<td>Thru May 2016</td>
<td>Sublet</td>
</tr>
<tr>
<td>UGL Equities / Kit King (916) 488-3071 / Mark Helmer (916) 447-3098 / Eric Davelo (415) 352-3415</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| - Lease Expiration: 5/1/15 - Square footage: approx. 5,000 sf - Avail date: Immediate - Asking rate: Negotiable - Condition: As is, furnished - The bonus is a one-time $2.00 psf for sublease signed by June 30, 2010.

---

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**CB Richard Ellis**  
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520 Capitol Mall (cont’d)

Building Notes:
520 Capitol Mall is an eight-story, 91,108-square-foot Class A office building located in Downtown Sacramento. There is an additional 8,060-square-foot basement and a four-story parking garage.
# Pappas Downtown Office Survey

## 621 Capitol Mall - U.S. Bank Tower

### Location:
- U.S. Bank Tower
  - Sacramento County Cluster
  - Downtown Submarket
  - Sacramento, CA 95814

### Building Type:
- Class A Office/Office with street-level Retail

### Status:
- Built Apr 2006

### Stories:
- 25

### FSA:
- 286,821 SF

### Typical Floor:
- 26,429 SF

### Total Area:
- 36,157 SF

### % Leased:
- 92.7%

### Parcel Number:
- 006-0151-020, 006-0151-021

### Parking:
- Ratio of 2.0/1,000 SF

### Amenities:
- 24/7 Building Access, Banking, Card Key Access, Conferencing Facility, Fitness Center, Food Service, Restaurant, Security System

<table>
<thead>
<tr>
<th>Floor</th>
<th>SF Ave.</th>
<th>Floor Config</th>
<th>Bldg Config</th>
<th>Rent/Year</th>
<th>Occupancy</th>
<th>Term</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>P 1st</td>
<td>1,500 - 3,000</td>
<td>8,490</td>
<td>13,032</td>
<td>$36.00/sf</td>
<td>Vacant</td>
<td>3-10 yrs</td>
<td>New</td>
</tr>
<tr>
<td>David S Taylor Interests Inc.</td>
<td>Jane Scott (916) 566-1215 x231</td>
<td>Retail Spaces</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P 1st Suite 150</td>
<td>1,500 - 4,500</td>
<td>8,490</td>
<td>13,032</td>
<td>$36.00/sf</td>
<td>Vacant</td>
<td>3-10 yrs</td>
<td>New</td>
</tr>
<tr>
<td>David S Taylor Interests Inc.</td>
<td>Jane Scott (916) 566-1215 x331</td>
<td>Retail Spaces</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
621 Capitol Mall is a landmark Class A high-rise office building. It is the premier business address in the Sacramento region, in the heart of downtown, three blocks from the State Capitol building.

The building provides 398,981 rentable square feet, and it has 25 floors above grade, including the mechanical penthouse. Parking is provided on one level of subterranean parking and six levels of above grade parking (levels 2 through 7). The ground floor level has restaurant and retail space. There are 17 floors of office space (floors 8 through 25).
# Pappas Downtown Office Survey

## 500 Capitol Mall - Bank of the West Tower

### Location:
- Bank of the West Tower
- Sacramento County Cluster
- Downtown Submarket
- Sacramento County
- Sacramento, CA 95814

### Building Type:
- Class A Office

### Status:
- Built Jun 2005

### Stories:
- 25

### RSA:
- 432,096 SF

### Typical Floor:
- 17,349 SF

### Total Avail:
- 191,077 SF

### % Leased:
- 55.9%

### Landlord Rep:
- James Lang LaSalle

### Developer:
- Tsakopoulos Investments

### Management:
- Tsakopoulos Investments

### Recorded Owner:
- Tsakopoulos Angelo G & Tsakopoulos Family

### Expenses:
- 2008 Tax @ $0.98/sf

### Parcel Number:
- 008-0944-030

### Parking:
- 609 fee-covered spaces are available, Ratio of 2.60/1,000 SF

### Amenities:
- 24/7 Building Access, Card Key Access, Fitness Center, On-Site Management, Property Manager on Site, Restaurant, Security System

### Floor

<table>
<thead>
<tr>
<th>Floor</th>
<th>SF Avail</th>
<th>Config</th>
<th>BR/WT Size</th>
<th>Occupancy</th>
<th>Term</th>
<th>Type</th>
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</thead>
<tbody>
<tr>
<td>P 1st</td>
<td>1,500 - 6,515</td>
<td>6,515</td>
<td>6,515</td>
<td>Negotiable</td>
<td>Vacant</td>
<td>Negotiable</td>
</tr>
<tr>
<td>E 1st</td>
<td>1,500 - 11,280</td>
<td>11,280</td>
<td>11,280</td>
<td>$35.40-$36.00/sf</td>
<td>Vacant</td>
<td>Negotiable</td>
</tr>
<tr>
<td>E 2nd</td>
<td>1,500 - 7,256</td>
<td>7,256</td>
<td>7,256</td>
<td>$35.40-$36.00/sf</td>
<td>Vacant</td>
<td>Negotiable</td>
</tr>
<tr>
<td>E 3rd</td>
<td>1,500 - 11,280</td>
<td>11,280</td>
<td>11,280</td>
<td>$35.40-$36.00/sf</td>
<td>Vacant</td>
<td>Negotiable</td>
</tr>
<tr>
<td>E 4th</td>
<td>1,500 - 9,977</td>
<td>9,977</td>
<td>9,977</td>
<td>$35.40-$36.00/sf</td>
<td>Vacant</td>
<td>Negotiable</td>
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</tbody>
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Pappas Downtown Office Survey

500 Capitol Mall - Bank of the West Tower (cont’d)

<table>
<thead>
<tr>
<th>Floor</th>
<th>SF Area</th>
<th>Floor Cost/</th>
<th>Build Cost</th>
<th>Rent/Dept Sq’</th>
<th>Occupancy</th>
<th>Term</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>E 8th</td>
<td>1,500 - 6,982</td>
<td>6,982</td>
<td>6,982</td>
<td>$36.40-$36.00</td>
<td>Vacant</td>
<td>Negotiable</td>
<td>New</td>
</tr>
<tr>
<td>E 10th</td>
<td>1,500 - 10,771</td>
<td>10,771</td>
<td>10,771</td>
<td>$36.00-$36.55</td>
<td>Vacant</td>
<td>Negotiable</td>
<td>New</td>
</tr>
<tr>
<td>E 15th</td>
<td>1,500 - 13,458</td>
<td>13,458</td>
<td>13,458</td>
<td>$37.20-$40.20</td>
<td>Vacant</td>
<td>Negotiable</td>
<td>New</td>
</tr>
<tr>
<td>E 20th</td>
<td>1,500 - 23,824</td>
<td>23,824</td>
<td>23,824</td>
<td>$37.20-$40.20</td>
<td>Vacant</td>
<td>Negotiable</td>
<td>New</td>
</tr>
<tr>
<td>E 21st</td>
<td>1,500 - 23,824</td>
<td>23,824</td>
<td>23,824</td>
<td>$37.20-$40.20</td>
<td>Vacant</td>
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<td>New</td>
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<tr>
<td>E 25th</td>
<td>1,500 - 23,824</td>
<td>23,824</td>
<td>23,824</td>
<td>$37.20-$40.20</td>
<td>Vacant</td>
<td>Negotiable</td>
<td>New</td>
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<tr>
<td>E 26th</td>
<td>1,500 - 17,820</td>
<td>17,820</td>
<td>17,820</td>
<td>$37.20-$40.20</td>
<td>Vacant</td>
<td>Negotiable</td>
<td>New</td>
</tr>
</tbody>
</table>

Building Notes
500 Capital Mall is strategically located in the heart of Sacramento’s Central Business District and offers state of the art amenities. This 43-story, 500-square-foot square foot premier office building rises 25 stories from the ground and provides sweeping panoramic views of the Sierra, the Sacramento River, and Sacramento’s skyline. With abundant amenities including on-site property management, 24-hour security, state of the art fitness center, table-ready access, overnight express center, planned restaurant, on-site parking, 500 Capital Mall will provide its tenants with a superior...
Pappas Downtown Office Survey

500 Capitol Mall - Bank of the West Tower (cont'd)

...business environment...
Pappas Downtown Office Survey

1201 K St - 1201 K Street

Location: 1201 K Street
Sacramento County Cluster
Downtown Submarket
Sacramento County
Sacramento, CA 95814

Building Type: Class A Office

Status: Built Jan 1996
Stories: 19
RSA: 223,993 SF
Typical Floor: 15,992 SF
Total Avail: 21,912 SF
% Leased: 91.1%

Landlord Rep: Grubb & Ellis
Developer: David S Taylor Interests Inc.
Management: CDA Rotunda Partners
Recorded Owner: California Dental Assn-Rotunda LLC

Parcel Number: 005-0111-013, 096-0111-016
Parking: 569 Covered Spaces are available; Ratio of 2.60/1,000 SF
Amenities: Card Key Access, Energy Star Labeled, Mail Room, On Site Management, Property Manager on Site, Restaurant

<table>
<thead>
<tr>
<th>Floor</th>
<th>SF Avail</th>
<th>Floor Config</th>
<th>Body Config</th>
<th>Rent/Price/Sq Ft</th>
<th>Occupancy</th>
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<th>Type</th>
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<tbody>
<tr>
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<td>3,800</td>
<td>3,800</td>
<td>3,800</td>
<td>$34.20-$38.60/Sq Ft</td>
<td>Vacant</td>
<td>Negotiable</td>
<td>Direct</td>
</tr>
</tbody>
</table>
Grubb & Ellis / Jason Rutherford (916) 418-6055 / Dan Chamberlain (916) 418-6026

Building Notes

Received 1991 Pacific Coast Builders "Best In The West, Golden Nugget Grand Award" for office and professional buildings over 75,000 SF.

Building features upscale restaurants on-site, showers and lockers on-site, FedEx on ground floor. Building also features legislative audio/video feed. Location in near hotels, shopping, banking, restaurants and light rail. Immediate access to Regional Retail Trolley and close to all freeways.

CBRE
C.R. Richard Ellis

16/6/2010
Page 18
This building was awarded an Energy Star label in 2010 for its operating efficiency.

Floors 2-8 = Parking
### Pappas Downtown Office Survey

**770 L St - Union Bank of California Center**

<table>
<thead>
<tr>
<th>Location</th>
<th>Building Type</th>
<th>Status</th>
<th>Stories</th>
<th>Gross Area (sq ft)</th>
<th>Typical Floor (sq ft)</th>
<th>Total Area (sq ft)</th>
<th>% Leased</th>
</tr>
</thead>
<tbody>
<tr>
<td>Union Bank of California Center</td>
<td>Class A Office</td>
<td>Built 1984</td>
<td>13</td>
<td>160,076</td>
<td>13,006</td>
<td>58,713</td>
<td>86.7%</td>
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</tbody>
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**Landlord Rep:** Jones Lang LaSalle  
**Developer:** Daniel Butler Company  
**Management:** Jones Lang LaSalle  
**Recorded Owner:** 770 L Street Investment Group Inc.

---

**Expenses:** 2008 Tax @ $2.78/sqft  
**Parcel Number:** 006-0153-015  
**Parking:** 259 covered spaces are available. Ratio of 2,000/1,069 SF

**Amenities:** Concierge, Energy Star labeled, Food service, Property Manager on site, Restaurant

---

**Floor Plan**

<table>
<thead>
<tr>
<th>Floor</th>
<th>SF Ave</th>
<th>Floor Care</th>
<th>Wall Care</th>
<th>Rent/SF/month</th>
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<th>Term</th>
<th>Type</th>
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<tbody>
<tr>
<td>Jones Lang LaSalle / Drew Peterson (916) 447-6300 / Jason Gulf (916) 447-0092</td>
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<td>Sublet 669: 3,411 SF available immediately for 5240 fault service ground.</td>
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<tr>
<td>P 6th / Suite 820</td>
<td>2,635</td>
<td>2,635</td>
<td>2,635</td>
<td>$28.80-$32.45</td>
<td>Vacant</td>
<td>Negotiable</td>
<td>Direct</td>
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<tr>
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**CBRE**

**CB Richard Ellis**

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<th>Building Notes</th>
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<td>Page 20</td>
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The property is strategically located in the heart of Sacramento's financial, business and government district. Tenants include prominent law firms, lobbyist groups, and corporate tenants. The building has a unique architectural design providing up to 11 corner offices per floor. There is a contemporary cafe and hair stylist on the 5th floor. Advanced fire and life safety systems are in the building. A helicopter pad is located on the roof. Corporate concierge services are available and covered valet parking along with a professional property management. The building is located close to I-5 and I-80 and situated on the RT Metro Light Rail Line.

This building was awarded an Energy Star label in 2008, 2009 & 2010 for its operating efficiency.
BIBLIOGRAPHY


<http://definitions.uslegal.com/o/overhead-expense/>  

<http://wahby.com/articles/overhead_defined.htm>