STATE OF NEBRASKA
Department of Administrative Services
State Building Division – Property Management Group
Assessment of Owned & Leased Property Program

March 1, 2014

Zimmer Real Estate Services

March 1, 2014

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Exhibits

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We were engaged to perform an assessment of the State Building Division's Owned and Leased Property Program. We have reviewed certain procedures and processes at the State Building Division ("SBD").

This report presents our observations regarding existing operations in effect at the last day of our visit, January 24, 2014, and our resulting comments and recommendations for improvement. The scope of our work was limited as described in Attachment A of our contract with the Department of Administrative Services (see **Exhibit 1** to this report). Our assessment consisted primarily of employee interviews and examining select documentation you provided to us, as well as conducting certain market research and financial analysis.

The assessment we have performed does not constitute an audit and, accordingly, we are not expressing an opinion on the State of Nebraska or any department's financial statements or financial condition.

This engagement would not necessarily disclose all weaknesses, potential fraud, errors or all opportunities for improvement.

This report is solely for the information and use of the State of Nebraska and is not intended to be and should not be used by any other party for any purpose without our approval. This report is the property of **BKD, LLP**. If any party intends to publish or otherwise reproduce this report and make reference to our firm name in any manner in connection herewith, BKD must be provided with the printer's proofs or masters for our review and approval before printing or other reproduction and provided with a copy of the final reproduced material for our approval before it is distributed, including posting our report on any website.

During our assessment, State of Nebraska employees were helpful, courteous and responded professionally to our requests.

Should you have any questions or require additional information or assistance, please contact us.

BKD, LLP

March 1, 2014

Introduction and Executive Summary

We were engaged to perform an assessment of the Owned and Leased Property Program of the State of Nebraska. The Owned and Leased Property Program is contained within the Department of Administrative Services State Building Division (SBD). The scope of work we were engaged to perform is documented in our contract with the Department of Administrative Services (DAS) dated January 10, 2014. The contract is attached to this report as **Exhibit 1**.

In compiling our observations contained in this report, we have relied primarily on interviews with SBD employees and a review of selected documents provided to us by SBD management, as well as performing certain market research and financial analysis. Our approach was structured as follows:

- Meet on-site DAS and SBD staff to review in detail process and procedures;
- Review and analyze pertinent reports, policies, manuals, guidelines, leases and planning documents;
- Research other state and private enterprise best practices and trends for managing commercial real estate portfolios;
- Provide recommendations for efficiencies and potential real estate cost savings;
- Submit a written report

This report is divided into two primary sections – organization of the SBD and a section containing several recommendations for improving certain aspects of the Owned and Leased Property Program. Below is an executive summary of our findings:

Recommendation 1: The State of Nebraska could likely benefit from the use of real estate brokers in lease negotiation for commercial leases with sophisticated lessors in Lincoln and Omaha, Nebraska. While this represents only a very small portion of property managed by the SBD, it is an important part. It is also the most likely place where involvement by a broker could provide the most value.

Recommendation 2: Over time the PMG should consider utilizing specific broker expertise outside Omaha and Lincoln when it will provide the most value.

Recommendation 3: The SBD should consider adding one additional full-time employee to the Property Management Group (PMG), preferably someone with commercial real estate leasing experience. This additional FTE will help free up time of the Property Program Manager to focus on proactive strategic planning.

Recommendation 4: The PMG should work more closely with space planning personnel to enforce space guidelines and ensure maximum utilization of State-owned space.

Recommendation 5: The State of Nebraska could likely benefit from involvement of outside expertise to assist with Vacant Building and Excess Land (VEBL) planning & resolution on a case-by-case basis. A more focused approach could be taken to effectively prioritize and reposition such properties.

> Recommendation 6: For outside broker or other real estate expertise, we recommend choosing the best firm/person in the geographic market for the particular property at issue – not a master contract that goes to a single firm. In addition, the State should utilize appropriate bidding practices and a simplified RFP/RFQ process to gather qualifications and bids.
>
> Recommendation 7: Ensure, to the extent it has not been completed as of the date of this study, that the vacant position responsible for handing parking is filled.
>
> Recommendation 8: Ensure that the transition and migration of data to ProLease is completed and that all PMG employees are adequately trained and proficient with the software.
>
> Recommendation 9: Create accurate KPIs to manage progress and measure success. These KPIs should be detailed, specific and comprehendible and should be backed up with clear and concise data. A PMG dashboard with all KPIs should be created.

Impetus for SBD Performance Assessment

On March 14, 2013, Bennett Ginsberg of CBRE MEGA testified at a meeting of the Appropriations Committee of the State of Nebraska. CBRE MEGA is a real estate broker and real estate management firm located in Omaha, Nebraska. Mr. Ginsberg is the President of CBRE MEGA, and he proposed to the appropriations committee that the appropriations "committee request that DAS support a comprehensive audit of all the state's owned and leased real estate holdings. We anticipate this cost not to exceed $250,000." The complete transcript of Mr. Ginsberg's testimony on March 14, 2013, is attached as **Exhibit 2**.

Subsequent to testimony by Mr. Ginsberg, the 103rd Nebraska State Legislature, 1st Session, enacted LB 195 Section 200, provided at **Exhibit 3**, which states as follows:

> The Department of Administrative Services shall undertake a comprehensive audit of the management, administration, and operation of all owned and leased real estate that is subject to the authority of the State Building Division of the Department of Administrative Services. The objective of such audit shall be to identify and recommend prospective measures that may be implemented to more efficiently and effectively manage, administer, and operate such real estate. Upon completion of the audit, a report of its findings and recommendations thereon shall be submitted to the Governor and Legislature on or before March 1, 2014. There is included in the appropriation to the program for FY2013-14 not less than $75,000 Revolving Funds to accommodate expenses associated with such audit. The report required to be submitted to the Legislature by this section shall be electronically.

DAS Seeks a Balanced Approach to Assessment

DAS contacted BKD to perform the required assessment. BKD sought to staff the assessment with an appropriate balance of professionals who are knowledgeable regarding the core operational and real estate issues. BKD possess experience with real estate operations from working with our clients in the real estate industry. In addition, we subcontracted with Zimmer Real Estate Services (Zimmer) out of Kansas City to provide an appropriate balance of real estate professional expertise on the project team. We believe the result is a balanced assessment, which includes the perspective of a real estate professional but is not overly slanted in favor of that type of report.

Subsequent to conducting fieldwork at the offices of SBD, we learned that Senator Mello had challenged the decision of DAS in engaging BKD to perform this assessment and provided to DAS certain marketing materials of CBRE MEGA. Those materials are attached as **Exhibit 4** to this report.

We would caution the State of Nebraska against permitting any party to perform an assessment and make recommendation where the recommending party stands to gain through a future contract with the State of Nebraska based on their own recommendations.

Discussion with Senator Mello

Angela Morelock of BKD discussed this assessment with Senator Mello on February 26, 2014. Our purpose for reaching out to Senator Mello was to determine if there were any particular concerns or issues that he was attempting to address by advocating for an assessment of the SBD and whether there was any information or input that he would like to provide and have considered as part of the assessment. Based on our discussion with Senator Mello, he would like to explore opportunities to reduce costs to the State of Nebraska related to real estate assets – whatever form such cost saving strategies might take (i.e. sale-leaseback arrangements, energy studies, public-private partnerships, etc.).

CBRE Report Regarding State of Florida

Senator Mello mentioned a particular assessment conducted by CBRE for the State of Florida. That study is a public document that can be downloaded from the State of Florida's web site. The study is very comprehensive and provides estimates of potential estimated cost savings of various strategies recommended by CBRE. However, we would not recommend that the State of Nebraska conduct such a comprehensive study, which would likely cost a minimum of $250,000. The State of Nebraska has a much different scenario than the State of Florida (which didn't even have centralized management of real estate at the time of the study). Each of the recommendations in the State of Florida report by CBRE also has significant up-front investment that would have to be made to derive the projected estimated benefits in the study. Plus, there are many factors that could negatively impact the cost savings goals associated with the recommendations, and as is the case with anything new, the devil is in the details – implementation of recommendations resulting from such a study would be costly, resource intensive, time consuming and could take years to occur. It is our assessment that such a study is not the best approach for the State of Nebraska, but that instead narrowly identified, strategic use of outside expertise in areas likely to add the most value with the State of Nebraska realizing immediate benefit would be a better approach.

Reports of Other Consultants

In 2012, DAS engaged The PFM Group, a financial advisory company focused on government and non-profit entities, to perform a "Real Estate Property Management Privatization Study" for the SBD. Their report, dated June 29, 2012, is provided in its entirety as **Exhibit 5**. The PFM Group study made numerous recommendations regarding the operations and processes of the SBD. The PFM Group report also included benchmarking and best practices related to Colorado, Iowa, Missouri and Utah. In addition to the three benchmarking states (CO, IA, MO), the real estate management practices for the states of Kansas and Oklahoma were also reviewed.

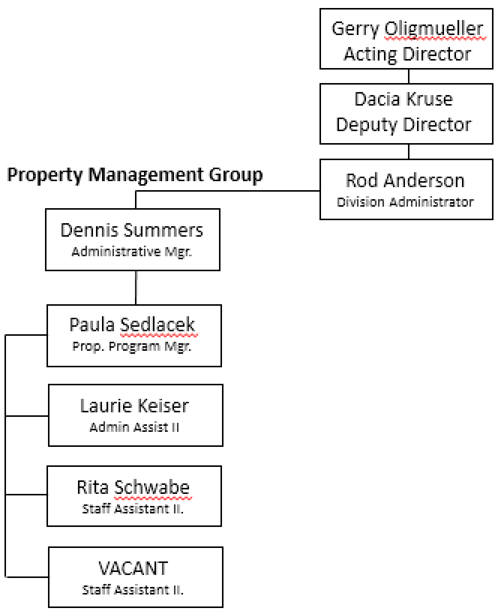
During our assessment, we noted that the SBD has made significant progress toward implementing the recommendations made by The PFM Group in 2012 including digitizing property records and implementing a new real estate management system (ProLease) to allow SBD to move away from using an Access database that has been cumbersome and unreliable.

Department of Administrative Services – State Building Division Overview

<u>Staffing</u>

The Property Management Group (PMG) within SBD is responsible for the management of approximately 3 million square feet of State-owned property, consisting of more than 278 buildings, along with approximately 1 million square feet of commercially leased properties consisting of more than 350 leases. Commercial leasing spend is approximately $13.6 million annually. The group consists of 3 full time employees and 1 vacant full time employee position related to coordination parking.

Administrative Services
State Building Division[1]



The PMG works to serve the State as its leasing administrator for all facilities that are used by the State, whether owned by the State or by third-party property owners. The PMG ensures all State buildings are occupied and that vacant properties are tracked and managed. The Group manages the entire third-party leasing process, gathering and verifying agency requirements, conducting site visits, managing the Request For Proposal ("RFP") bid process, leading lease negotiations, construction (tenant improvement) management and providing lease administration to move coordination services. Annually, the Group provides a report to the State Legislature's Appropriations Committee and the Committee on Building Maintenance regarding the amount of property leased by the State and the current vacancy rate of State-owned property.

[1] Organizational chart recreated in part from DAS/SBD internal document

Specifically, the PMG's responsibilities[2] can be categorized as follows:

Administrative Support:

- Information Management (Contracts/Records)
- Coordinate legal review
- Maintain a centralized file of all contracts by type
- Continuously monitor existing service contracts for re-bidding or renewal as required
- Develop required service and repair contracts and insure proper execution
- Coordinate contract approval
- Match invoices to contract for payment processing
- Conference room and meeting coordination
- Coordinate voice/data requirements in each facility through the office of the CIO
- Provide SBD/other agency requirements to the offices of the CIO for design and installation.
- Assist Office of the CIO with systems installation
- Monitor operational costs

State-Owned Leases:

- Manage corporate/SBD lease agreement
- Manage SBD/Agency lease agreement
- Manage payment process
- Manage remodeling, space planning, move assistance
- Contract management
- Develop lease language
- Manage renewals
- Manage 309 Taskforce
- Manage Vacant Building Excess Land ("VBEL") process

Third-Party Commercial Leases:

- Manage Agency requests
- Validate Agency approval to acquire outside lease
- Conduct site inspections
- Manage Lease negotiations:
    - Manage bidding process
    - Review proposals
    - Develop counter offers
    - Negotiate terms

[2] Sourced from internal DAS/SBD documents

- Manage Customer relations
- Manage Construction Meetings
- Manage Tenant Improvements
- Setup rental payment/billing system with AS/Central-Finance
- Lease recording
- Lease filing
- Manage extensions/renewals
- Investigate claims/Recommend action
- Develop specifications
- Develop evaluation tools

<u>Parking</u>:

- Administer and monitor the parking program
- Review the maintenance requirements of all systems and equipment
- Manage parking facility maintenance requirements to insure completion
    - Lot repairs
    - Lot policing
    - Parking fee collection
    - Parking privilege management
    - Parking turnover
    - Parking resource management
- Review structural stability of parking facilities
- Review maintenance
- Meet as required with the Parking Advisory Committee
- Maintain waiting lists
- Assign parking
- Initiate payment through NIS
- Monitor usage
- Planning of supply versus demand
- Policy Development
- Rate Setting
- System development/upgrade
- Janitorial oversight

Specific roles and responsibilities[3] of PMG are as follows:

[3] Sourced from DAS/SBD internal documents and staff interviews on January 20-23, 2014

Administrative Manager. The PMG reports into the Administrative Manager, Dennis Summers. Mr. Summers is a 42 year employee of the State of Nebraska and has responsibility for managing the group, overseeing all State leasing matters and maintenance of State-owned property files.

Property Program Manager. The Property Program Manager is currently staffed by Paula Sedlacek. Ms. Sedlacek has been an employee for the State for 4.5 years and has been the Property Program Manager for 2.5 years. As Property Program Manager, Ms. Sedlacek assists in developing and executing strategic plans while managing operations and staff in the functional area of statewide property management for SBD. Ms. Sedlacek is tasked to ensure optimal utilization of existing state owned and leased facilities in accordance with statute. In this single position class, work is performed under guidelines established by the division administrator and the policies and procedures of the agency. She performs related work as assigned. Ms. Sedlacek manages the Administrative Assistant II and both Staff Assistant II positions (one of which is currently vacant).

<u>Examples of work include</u>:

Develops, implements, coordinates and evaluates programs, policies and goals regarding utilization of state owned and leased property. Researches, analyzes, develops, recommends and implements new policies, procedures, processes and/or initiatives, working towards continuous improvement of the property management program ensuring optimal utilization, operational, and economic efficiencies.

Conduct research and analysis to recommend potential construction of new facilities and/or potential facility/land acquisitions.

Coordinates state agencies' leasing needs to maximize efficiencies, obtains leased space for state agencies, ensures agencies are billed appropriately for space and enforces policies to ensure compliance with state statute and lease agreements. Establishes and maintains positive business relationships with property program customers and resolves customer or vendor issues concerning billings, payments, and space utilization.

Develop and manage RFP process, bid review/analysis, selection and bid award process for obtaining required lease space; negotiates terms, conditions, and costs for the development of the initial lease(s) and any renewal options, sets lease rates for agencies.

Implements policies and procedures for the VBEL Act. Coordinates disposal of vacant buildings and excess land through sale/lease/demolition of any property as directed by the VBEL Committee.

Maintains state owned and leased land inventory; assists the Division of Risk Management to ensure replacement values are developed in conjunction with the building insurance program, develops legislative proposals affecting the State Property Program, presents and defends property program during budgetary and legislative processes.

Provides fiscal oversight and management for the Division including but not limited to; preparing Building Renewal Assessment Rates, biennial budget development process, monitoring expenditures, revenues, cash and invoices of division; prepares, reviews, and approves financial documents to be sent or transmitted to the agency's central finance office.

Assigns, reviews and coordinates work of assigned staff including but not limited to training, hiring, conducting performance evaluations, handling disciplinary action and approving time sheets.

Administrative Assistant II. The Administrative Assistant II position is currently staffed by Laurie Keiser. Ms. Keiser has been in this role for 1.5 years and is responsible for managing all of the third-party commercial leases or lease renewals entered into on behalf of the State. Under limited supervision, she serves as a coordinator or specialist with an agency's program-administrative function or unit and provides advice and technical assistance to agency management and employees and others concerning the operations and activities overseen or directed. She develops and implements program-administrative directives, standards, and processes for PMG and performs related work as assigned.

<u>Examples of work include</u>:

Works with landlords and tenant agencies to procure and maintain space outside of State-owned facilities, while adhering to the laws and rules and regulations of the State.

Conducts site visits during Requests for Approval and renewals, as needed. While out on the road, conduct spontaneous visits to other sites to ensure the space is being maintained, safe, used appropriately and to converse with the staff regarding the leased space.

Develops and circulates leasing documents for execution in a timely manner, using the cover sheet checklist to ensure all reviewers are included. Reviews the returned document for comments or edits and forwards the approved signed lease to landlord for execution.

Initiates lease renewal process by reviewing existing lease documents. Reviews the Agency's comments on Request for Renewal form and communicates with agency and Landlord throughout the process regarding any changes proposed by either landlord or tenant agency to draft the addendum/amendment.

Maintains contract files with updated documents and correspondence by printing and placing in the Lease file: critical emails and mail pieces when received. Updates the pending review report with specific details throughout the lease renewal and enters data in the database that refers to billing or termination changes.

Continues to develop the lease process based on the best use of staff resources to efficiently complete leases and renewals in a timely manner. Works with Staff Assistant and Property Manager.

Staff Assistant II. The Staff Assistant II position is currently staffed by Rita Schwabe who has been in the role for 1.5 years. Ms. Schwabe is responsible for recommendation to central finance of payment of bills for State-owned properties and rent for third-party commercial leases. She inputs and updates lease renewals, and is the back-up to the Parking Coordinator position. Under limited supervision, Ms. Schwabe handles a single administrative or program operation, function, or activity in a contributory capacity with the immediate supervisor or manager and performs varied administrative, technical, and/or program support work. Ms. Schwabe performs related work as assigned.

Staff Assistant II. This position is currently vacant but will be responsible for managing the Parking responsibilities for the State.

PMG staff is tasked with a significant amount of administrative and process driven tasks that are mostly tracked and/or reported via Microsoft Access and Excel spreadsheets. Most of the processes are labor intensive and generally inefficient. The staff expressed frustration at what it felt was a lack of resources and it noted that while roles are clearly defined, everyone must "pitch in" to cover for those resources or functions not available.

Progress is evident in administrative and staffing areas. ProLease lease software has been purchased to replace its Microsoft Access database and aid in the management/administration of all leases and to streamline the reporting process. Further, interviews for the Staff Assistant II vacancy were being conducted during on-site visits.

Conclusions Regarding Staffing

Other than Mr. Summer's tenure with the State, most of the staff is relatively new with less than 3 years of experience in their current position. Those interacting with third party property owners in the negotiation of commercial leases did not have previous industry knowledge and only tangential previous work experience. None of the employees in the PMG have prior experience in real estate brokerage or commercial property leases. Turnover appears to be an on-going problem for PMG and will likely remain a problem in the future.

Given the volume of administrative duties and square footage of State-owned and leased property managed by the Group, the program is highly cost efficient. However, understaffing and turnover have resulted in the team having little time to be proactive or think strategically about the State's real estate assets and leases. Salary and benefit costs for the three full-time employees are currently $15,987. There is no doubt that the State of Nebraska is deriving significant value from the three employees that manage the State's property at minimal cost. We recommend adding one additional full-time employee to the group, preferably someone with some level of commercial real estate brokerage or leasing experience. One additional FTE would allow the Property Program Manager to delegate more administrative tasks and free up time for more strategic thinking and proactive planning, elements that is currently significantly missing.

Owned - Excess and Obsolete Real Estate – Process & Procedures

The Vacant Building and Excess Land (VBEL) Committee is tasked with meeting to determine and direct the future of excess and obsolete buildings and land. The committee is made up of the following:

- Director of DAS
- Administrator of SBD
- Administrator of the Task Force for Building Renewal[4]

The committee meets quarterly to review buildings and land at the request of State agencies and creates a plan for the property, taking into consideration highest and best alternative uses; be it selling, repurposing, "mothballing"[5] or demolishing.

[4] The Task Force for Building Renewal is a separate DAS division that was created by the Deferred Building Renewal Act (LB309).

[5] The preservation of a facility without using it for any particular function. The facility is kept in working order such that it can again become operational.

Real Estate Leases – Process & Procedures

The property management activities of the SBD principally fall into two categories: State Owned Property and Commercial Leases.

State Owned Property

State owned property consists of buildings owned by the State. Space in these buildings is principally leased to other State agencies, though some space is leased to 3rd parties. State-owned property accounts for about 75% of the square footage managed by the SBD.

Each State-owned facility is budgeted to operate on a breakeven basis. Operating expenses are calculated for each of the 278 buildings and every 2 years agency leases are renewed, coinciding with the State's biennium budget cycle. Lease rates are checked against market but neither term nor rate is negotiated. The process, while burdensome, is administrative in nature. Because the majority of State-owned space is leased to other agencies at essentially "cost to operate", there is little advantage to be gained by involving a real estate broker in the leasing process for this space.

Prior to the expiration of a lease, PMG determines whether an agency would like to remain in the current space or look for new space. In the majority of cases, an agency chooses to remain in place. While SBD has final decision-making authority to determine where agencies are located, the agencies have significant input in the decision making process. In most cases, leases carry two to three 2-year options.

The PMG has developed a facility use manual to aid agencies under lease in State-owned buildings. The manual sets forth rules and regulations for agencies and ranges from use of space heaters to space alterations to signage. Further, the Group conducts audits on agency leased space and tracks vacancy of State-owned buildings; the latter of which is used as a Key Performance Indicator (KPI) in PMG's reporting.

Commercial Leases

Commercial leases are comprised of space leased by State agencies from third party lessors. Commercial leases account for about 25% of the space managed by the SBD.

There are currently 351 commercial leases with State agencies as tenants. These leases comprise over 1 million square feet. In the event a State-owned building does not have the vacancy for an agency or a State-owned building is not otherwise an appropriate facility for such agency, PMG aids in securing a lease for such agency. The SBD charges each agency 1% of the lease cost on commercial leases to offset administrative costs for providing such services.

While the pure number of commercial leases is on its face voluminous, a break down by type reveals only 100 of the leases are with true third-party commercial landlords. The largest number of commercial leases are "no charge" leases that are provided by local municipalities or counties (ex. Department of Motor Vehicles – Hayes County provides space at Hayes County Courthouse at no cost to the State), followed by a significant number of leases with other government or quasi-government entities (ex. Department of Labor lease with the City of Lincoln).

The 351 commercial leases can be categorized as follows:

Commercial Leases	
Storage Only Leases	31
Parking Only Leases	2
Other-No Office Space	5
Govt. or Quasi Govt. Space (Not State Owned)	76
County (Free Space)	137
Third Party Commercial Lessors	100
Total	**351**

Unlike leases for State-owned buildings, commercial leases are generally secured for a longer term. These leases are secured on the State's standard lease form and terms range from 3 to 20 years with most in the 5 to 10 year range. Lease rate escalation also varies per lease but most leases escalate under a fixed escalation of between 2.0%-3.5% annually. The PMG has made an effort to eliminate Consumer Price Index ("CPI") or Cost of Living Adjustments ("COLA") formulas from the lease terms to ease the administrative burden of calculating such adjustments to the lease rate.

While lease terms and rate escalations vary, all of the commercial leases include a no-fault non-appropriation clause that provides the State the ability to terminate the lease in the event the agency is not granted adequate funding from the Legislature. Some leases also carry a pure no-fault termination, allowing the State to terminate the lease for "any or no reason." In the event the landlord has funded tenant improvements on behalf of the State, some leases allow for the re-payment of unamortized tenant improvement dollars in the event of a termination prior to the end of the natural expiration term.

In the past, many of the commercial leases were "triple net" or "NNN" leases, where the lease rate was net of taxes, insurance and common area maintenance. Further, with net leases many of the agencies were responsible for establishing and paying electrical, utilities, janitorial and property maintenance (the latter in the case of single occupier buildings). Commencing in 2011, PMG began shifting new and renewed leases to a "full service gross" lease format and placing the responsibility of property management and utilities upon the landlord, thus providing the State with the highest level of certainty regarding occupancy cost and simplifying the administrative process and allowing State agencies to make only one monthly payment. While full service gross leases are commonplace in office settings, a negative component of such structure is that any annual lease escalation increases the overall lease rate regardless of any actual increases the landlord incurs in its operating expenses.

Further, on new, relocating or renewing commercial leases, PMG, via a formal or informal RFP process, requires all landlords to fund the tenant improvement costs and directly contract for the performance of such work on behalf of the State agency. Such costs are amortized over the term of the lease and are included in the cost of the lease rate negotiated with the landlord.

Commercial Leases are currently managed via a Microsoft Access database and lease renewal "ticklers" are handled on employees' Microsoft Outlook "tasks" or "calendars". It was noted that PMG recently purchased ProLease software allowing for the administration of leases to be more effective. It will allow PMG to organize and manage leases in one integrated system.

As a result of staffing shortfalls, overall workload, and delays in notices from agencies, many leases are not being renewed in a timely manner. While PMG has a goal to begin the renewal process 12 months prior to lease expirations, many leases, some of notable size, are not being renewed until a few months before the expiration date. With delays in renewals, it may inhibit PMG's ability to negotiate to market rates and landlords may use the loss of the State's leverage to their advantage.

While there is a consciousness among PMG staff to work to reduce or keep flat commercial lease costs, there appears to be a limited tool kit to achieve these objectives. In interviews with staff, very few leases over the last 5 years had been successfully restructured to achieve real estate cost savings for the State.

Key Performance Indicators ("KPIs")

The SBD tracks four KPIs on a quarterly basis. Two of the four KPIs are directly attributable to PMG's work with both State-owned leases and third-party commercial leases.

1. The first KPI measures the percent of commercial leases with rental rates below industry averages.

   PMG uses a subscription based, industry standard service, CoStar, to obtain its industry average market information. CoStar is an independently researched real estate database that, according to its website, "…is the number one provider of commercial real estate research and information services for property investors and professionals in the United States…"[6] Specifically, PMG uses CoStar's quarterly office market reports for both Omaha and Lincoln as benchmarks. The office market report looks at average lease rates per office building class (Class A[7], Class B[8] and Class C[9]) as well as across all office buildings classes (A, B and C) within the targeted submarket (Omaha or Lincoln). Its report further lists average office lease rates per city submarket (ex. Downtown Lincoln, East Lincoln, Far South Lincoln, North Central Lincoln) and provides an average weighted lease rate for all submarkets; the latter of which PMG uses for its KPI benchmark (see table insert below).

[6] www.costar.com

[7] CoStar Definition – "A classification used to describe buildings that generally qualify as extremely desirable investment-grade properties and command the highest rents or sale prices compared to other buildings in the same market. Such buildings are well located and provide efficient tenant layouts as well as high quality and in some buildings one-of-a-kind floor plans. They can be architectural or historical landmarks designed by prominent architects. These buildings contain modern mechanical systems and have above-average maintenance and management as well as the best quality materials and workmanship in their trim and interior fittings. They are generally the most attractive and eagerly sought by investors willing to pay a premium for quality."

[8] CoStar Definition – "A classification used to describe buildings that generally qualify as a more speculative investment, and as such, command lower rents or sale prices compared to Class A properties. Such buildings offer utilitarian space without special attractions and have ordinary design, if new or fairly new; good to excellent design if an older non-landmark building. These buildings typically have average to good maintenance, management and tenants. They are less appealing to tenants than Class A properties and may be deficient in a number of respects including floor plans condition and facilities. They lack prestige and must depend chiefly on lower price to attract tenants and investors."

[9] CoStar Definition – "A classification used to describe buildings that generally qualify as no-frills, older buildings that offer basic space and command lower rents or sale prices compared to other buildings in the same market. Such buildings typically have below-average maintenance and management and could have mixed or low tenant prestige, inferior elevators, and/or mechanical/electrical systems. These buildings lack prestige and must depend chiefly on a lower price to attract tenants and investors"

> CoStar's office market reports convert rental rates to a full service gross equivalent rental rate to apply an "apples to apples" comparison across office buildings. While CoStar makes no guarantees to the quality, accuracy, timeliness or completeness of its data[10], it is a widely used reporting tool within commercial real estate industry in major (tier 1 and 2) cities in the United States.
>
> A PMG KPI dated April 15, 2013, reports the following:
>
> "% of Commercial Leases with Rental Rates below Industry Averages – Lincoln/Omaha have 106 commercial leases, Industry average rate for Omaha is $16.62 per square foot. SBD average lease rate is $15.23 and Lincoln Industry average is $13.90 per square foot and the SBD average rate is $12.86 which means 100% of the leases are below the Industry average rate."

In looking at the veracity of the data for the commercial leases with rental rates below industry averages, it appears there are some errors in the reporting. In reviewing the approximately 100 commercial leases in Lincoln and Omaha, it appears roughly 20% of these are storage leases, 10% are County leases with no charges, 22% are Government or quasi-government landlord space with limited lease negotiations and 2% are parking leases. This leaves approximately 44% of the leases as office leases with traditional third-party commercial landlords. Therefore, to compare all State agency leases against a weighted average office lease rate across submarkets would be inaccurate. Further, there are a number of leases that have a rate per square foot above either $16.62/SF or $15.23/SF for Omaha and Lincoln, respectively, and thus the statement that "100% of the leases are below the Industry average rate" is also not accurate.

When isolating commercial office leases in the Lincoln Downtown submarket, it appears the State is in fact leasing more than 500,000 SF at an average office lease rate of $14.17/SF or 11% over downtown Lincoln quoted rates of $12.60/SF, based on CoStar's Q32014 market report. Alternatively, NAI FMA Realty's Second Half 2013 Market Report shows that downtown Lincoln's Central Business District ("CBD") office lease rate averages $15.85/SF or 12% more than the State is paying. Similar results were found when looking at the more than 50,000 square feet of third-party commercial office space in Omaha market and its adjacent submarkets. It should be noted that CoStar's market report includes government building leases while NAI FMA's market report excludes government building leases due to difficulty in verifying data.[11] While market reports are helpful, it could be misleading to use them as an absolute benchmark for a KPI.

It is also important to note that the State's leases may include tenant improvement dollars that have been funded by landlords and amortized into the lease rate and that leases reported to CoStar and other brokerage firms may not include landlord incentives, such as free rent, that would keep the lease rate to the market higher than the actual effective rate being paid. While CoStar and local commercial real estate market reports are one of the best sources for real estate industry data by property type and submarket, they are not 100% accurate and subject to interpretation by the reporting sources. Further, not all real estate agencies choose to report data to CoStar, which can dilute data integrity. Therefore, the information contained in these reports should be cross-checked and is most useful when tracking real estate trends within markets by property type.

[10] The CoStar Office Report, Third Quarter 2013 Lincoln Office Market
[11] Conversation with NAI FMA staff on Monday February 17, 2014 regarding calculation of market reports

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Quoted Office Lease Rates by Submarket

CoStar Market Report – Lincoln, NE[12]

TOTAL OFFICE MARKET STATISTICS

Third Quarter 2013

Market	Existing Inventory # Blds	Existing Inventory Total RBA	Vacancy Direct SF	Vacancy Total SF	Vacancy Vac %	YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
Downtown Lincoln	124	5,512,847	291,499	307,176	5.6%	27,404	45,000	0	$12.60
East	118	2,068,829	151,280	156,134	7.5%	(23,142)	0	0	$13.82
Far South	163	2,376,042	193,197	198,549	8.4%	(21,683)	10,842	0	$14.23
North Central	100	2,152,824	91,673	91,673	4.3%	861	0	0	$13.38
North Lancaster County	5	9,940	0	0	0.0%	1,000	0	0	$0.00
Northeast	70	592,269	43,390	43,390	7.3%	(22)	0	0	$11.77
Seward County	3	5,678	0	0	0.0%	0	0	0	$0.00
South	147	1,571,080	152,746	152,746	9.7%	4,840	13,719	0	$15.26
South Lancaster County	8	17,250	720	720	4.2%	0	0	0	$12.50
West	19	268,934	67,355	67,355	25.0%	(23)	0	0	$5.19

NAI FMA Realty Market Report – Lincoln, NE[13]

OFFICE ABSORPTION TOTALS

SUBMARKET	CLASS	NUMBER OF BUILDINGS	TOTAL RENTABLE SF	TOTAL AVAILABLE SF	% VACANT	NET ABSORPTION	AVERAGE ASKING RATE ($/SF/YR)
CBD	CLASS A	5	639,516	62,951	9.8%	(1,577)	$16.53
	CLASS B	94	2,674,037	397,660	14.9%	(14,446)	$15.89
	CLASS C	22	248,218	17,172	6.9%	(13,978)	$12.81
	NEW	1	63,609	-0-	0.0%	63,609	N/A
	SUBTOTAL	122	3,625,380	477,783	13.2%	33,608	$15.85

12 The CoStar Office Report, Third Quarter 2013 Lincoln Office Market

13 NAI FMA Realty – Second Half 2013 – Central Business District ("CBD") Lincoln, NE

Quoted Office Lease Rates by Submarket

CoStar Market Reports – Omaha, NE[14]

TOTAL OFFICE MARKET STATISTICS — Third Quarter 2013

Market	Existing Inventory # Blds	Existing Inventory Total RBA	Vacancy Direct SF	Vacancy Total SF	Vac %	YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
72nd Street Corridor	59	1,882,438	155,360	159,645	8.5%	10,709	0	0	$15.28
Bellevue/Sarpy County	122	1,939,007	267,375	279,077	14.4%	(59,211)	10,000	0	$17.08
Carter Lake	3	33,507	0	0	0.0%	0	0	0	$11.33
Central Northwest	130	3,829,339	397,740	435,346	11.4%	(89,831)	0	105,000	$18.42
Central Southwest	344	7,885,310	787,899	787,899	10.0%	592,297	685,000	0	$15.40
Council Bluffs	83	1,109,994	86,771	86,771	7.8%	(26,774)	4,689	0	$10.71
Downtown Council Bluffs	47	273,202	2,058	2,058	0.8%	13,569	13,569	18,555	$20.87
Downtown Omaha	79	8,606,949	873,989	880,183	10.2%	(8,341)	0	278,824	$17.18
E Cass County	20	61,126	0	0	0.0%	0	0	0	$14.07
E Mills County	5	12,583	0	0	0.0%	0	0	0	$0.00
E Pottawattamie County	4	24,567	5,600	5,600	22.8%	0	0	0	$0.00
Harrison County	3	4,058	0	0	0.0%	0	0	0	$0.00
Midtown	257	5,146,074	245,819	245,819	4.8%	(69,526)	0	0	$11.70
Outlying Douglas County	210	4,026,793	241,846	244,546	6.1%	104,627	32,877	18,931	$20.03
Outlying Sarpy County	85	957,719	31,406	31,406	3.3%	24,685	22,985	0	$13.02
Saunders County	9	33,971	1,200	1,200	3.5%	0	0	0	$11.88
Suburban Northwest	13	250,991	8,156	12,566	5.0%	(4,410)	0	0	$12.65
Suburban Southwest	113	2,377,394	408,267	416,452	17.5%	105,766	85,679	61,774	$15.44
W Cass County	5	11,473	1,235	1,235	10.8%	0	0	0	$16.85
W Dodge Corridor	108	4,019,447	249,843	249,843	6.2%	3,524	0	100,000	$20.99
W Mills County	26	75,111	0	0	0.0%	0	0	0	$0.00
W Pottawattamie County	3	10,152	0	0	0.0%	0	0	0	$0.00
Washington County	38	317,871	22,914	22,914	7.2%	(18,912)	0	0	$13.06
Totals	**1,766**	**42,889,076**	**3,787,478**	**3,862,560**	**9.0%**	**578,172**	**854,799**	**583,084**	**$16.77**

Investors Realty Inc. Office Market Report – Omaha, NE[15]

Submarket	# of Bldgs	Inventory (SF)	Total Available (SF)	Total Vacant (SF)	Total Vacancy Rate	Quarterly Absorption (SF)	YTD Net Absorption (SF)	Average Asking Rental Rate
Downtown	31	4,517,078	545,139	474,815	10.5%	44,617	23,162	$16.72
Central West Dodge	47	2,379,509	267,392	174,605	7.3%	6,962	17,389	$18.60
Midtown	26	2,193,357	464,443	464,443	21.2%	-2,964	-53,556	$17.09
South Central	79	2,191,720	666,096	601,303	27.4%	10,707	-2,435	$16.23
Sub. West Dodge	41	2,182,824	161,799	126,262	5.8%	39,756	50,953	$23.39
Northwest	49	1,646,725	387,652	363,755	22.1%	-3,570	-2,211	$16.66
Southwest	50	1,425,492	244,352	200,026	14.0%	-13,688	-23,640	$18.71
Old Mill	43	1,229,325	193,297	123,548	10.1%	-43,297	-51,645	$15.83
Regency	17	1,002,454	142,882	108,360	10.8%	11,015	4,014	$20.63
Southeast	14	993,367	317,533	230,481	23.2%	-22,875	-21,763	$16.30
Miracle Hills	23	766,360	149,573	51,381	6.7%	6,489	3,341	$19.44
Northeast	4	211,440	91,673	49,016	23.2%	3,474	3,611	$16.99
Omaha Market	**424**	**20,739,651**	**3,631,831**	**2,967,995**	**14.3%**	**36,626**	**-52,780**	**$17.88**

[14] The CoStar Office Report, Third Quarter 2013 Omaha Office Market
[15] Investors Realty Inc. – Office Market Report – Summer 2013

In further isolating Lincoln Downtown commercial office leases, some specific downtown State-leased properties were evaluated against recent landlord asking rates:

Address	Office Building	Location	Agency	Square Feet (SF)	Lease Rate/SF	Asking Rate/SF	Lease Expiration
1200 N ST	Atrium Bldg.	Lincoln, NE	Abstracters Board of Examiners	255	$13.22	$13.00	6/30/2016
1200 N ST	Atrium Bldg.	Lincoln, NE	Department of Environmental Quality	52,590	$14.78	$13.00	9/7/2018
1200 N ST	Atrium Bldg.	Lincoln, NE	Library Commission	40,697	$13.82	$13.00	11/30/2017
1200 N ST	Atrium Bldg.	Lincoln, NE	Nebraska Real Estate Commission	3,328	$13.61	$13.00	6/30/2016
1200 N ST	Atrium Bldg.	Lincoln, NE	Public Service Commission	14,800	$14.51	$13.00	9/30/2017

Address	Office Building	Location	Agency	Square Feet (SF)	Lease Rate/SF	Asking Rate/SF	Lease Expiration
1033 O St.	Gold's Bldg.	Lincoln, NE	Dept. of Health and Human Svs.	94,692	$14.45	$11.00-$11.75	3/31/2016
1034 O St.	Gold's Bldg.	Lincoln, NE	Dept. of Labor	6,076	$13.07	$11.00-$11.75	12/31/2014

Currently State agencies lease approximately 111,670 SF of space at an average weighted lease rate of $14.36 per square foot on a full service gross basis in the 1200 N Street “Atrium Building” and approximately 100,768 square feet in the 1033 O Street “Gold’s Building” at an average weighted lease rate of $14.37 per square foot on a full service gross basis. Since 2007, historical asking lease rates for the Atrium Building have been $13.00/SF[16] and recently asking rates for the Gold’s Building have been between $11.00- $11.75/SF[17]. All of the State’s leases at these buildings have annual escalation provision of between 3% and 6% annually with an annual weighted average of 3.8%. While office escalations vary by market, a general average in Lincoln is 3%. Both of these buildings have different Landlord names, however, a public profile indicates they are owned by the same related entity, Security National Properties, and PMG records show the property manager and leasing agent for both buildings work for Security National Properties.

The Atrium Building is generally classified as a Class B building while the Gold’s Building is classified as a Class C building.

Inquiring with a local commercial real estate agent in the Lincoln area that specializes in the investment and office market, it was conveyed that the owner of the Atrium Building, Sequoia Investments XVIII, LLC entered into chapter 11 bankruptcy proceedings in 2011 and emerged early to mid-2013. The building has a general history of maintenance issues. While lease rates vary with each specific deal, a typical 25,000 square foot office user with good credit could expect to reach a deal around $10.00 per square foot with 2.5-3% annual escalations, some free rent and limited tenant improvement dollars included. Such a lease rate would include payment of commissions to respective leasing agents.[18]

While the State leases approximately 212,438 square feet from the same landlord under 7 different leases for 7 different agencies and while 75% of the leases expire within 35 months of each other only, 2 leases comprising 3,583 square feet are co-terminus. Understanding that each agency has its own unique requirement, it appears there may be some opportunity to leverage these leases.

[16] Loopnet commercial real estate listings and research May 2007-April 2012
[17] Loopnet commercial real estate listings and research
[18] Conversation with NAI FMA commercial agent in Lincoln, NE based on general market knowledge and representative of leases secured in the building.

Tenant Improvements & Effective Rate

As mentioned earlier, it is common in commercial leasing of office space for some amount of tenant improvement dollars to be included within the advertised lease rate. This amount, usually calculated in a dollar per square foot number is negotiated along with the lease rate, free rent and other concessions. Typically, any tenant improvement dollar amount in excess of the amount included within the lease rate or otherwise negotiated is amortized by the Landlord or paid "out of pocket" by the tenant.

For example, after negotiation on a 10,000 SF space for a 5 year lease, the terms are as follows:

Lease Rate:	$10.00/SF
Tenant Improvement Allowance:	$5.00/SF or $50,000.00
Actual Cost of Tenant Improvements:	$75,000.00
Landlord Amortization:	$25,000.00
Amortization Rate:	8%
Effective Lease Rate:	$10.61/SF

Data was unavailable to ascertain how much money the owner of the Atrium building originally or subsequently (through lease renewals) invested in the form of tenant improvements on behalf of state agencies, how long such investments were amortized and/or at what rate the investment was amortized. This information could validate the lease rate State agencies are paying or may show that the State is overpaying for its leases in the Atrium Building. At the end of the current lease terms, the agencies with leases in the Atrium Building will have been tenants at the building for at least 23 years, with one agency a Tenant for 30 years. Generally, tenant improvements become fully amortized at the lesser of the tenant improvement's useful life or the lease term.[19] Therefore, with a 5 year lease, any money amortized into the lease rate at the commencement of the lease would likely be extinguished at the end of the lease rate.

From discussions with PMG staff it appears that each agency determines what tenant improvements it would like in a space and those improvements are included in discussion or via a formal or informal RFP to the Landlord. The Landlord prices the cost of such improvements and calculates a lease rate to PMG. Once a lease rate and ancillary terms are agreed upon, PMG requires the Landlord to fund and manage the construction of the improvements and deliver the space to the tenant "turn-key" or "move-in" ready. While this approach makes it much easier for PMG, with limited resources, to manage the commercial leases, the cost of construction, construction management, mark-up etc., is typically not revealed by the landlord and "baked" into the lease rate. Unlike the example above, PMG would not know the actual cost of such improvements, only the final full service lease rate the agency would pay.

Free Rent & Effective Rate

It is also common in commercial office leasing to negotiate a free rent into a lease. This is done for a number of reasons, which could include institutional lender restrictions placed upon a landlord. Free rent or other similar incentives essentially allow the landlord to keep its reported lease rate per square foot higher while effectively meeting the demands of the marketplace. In accounting for such free rent, typically the amount of total free rent obtained during lease negotiations is amortized evenly over the term of the lease on a straight-line basis.

[19] FASB.org

For example, after negotiation on a 10,000 SF space for a 5 year lease, the terms are as follows:

Lease Rate:	$10.00/SF
Annual Lease Amount:	$100,000.00
Free Rent:	6 months
Value of Free Rent:	$50,000.00
Amortized Evenly Over Lease Term:	$10,000.00 per year
Effective Annual Lease Amount:	$90,000.00
Effective Lease Rate:	$9.00/SF

From interviews with PMG staff, free rent is not currently being negotiated with landlords when entering into new leases or negotiating lease renewals.

KPIs (continued):

2. The second KPI PMG report is the vacancy rate of State-owned office space.

   A PMG KPI report on July 8, 2013, reports the following:

   "Vacancy Rate of State Owned Office Space – There are now 3 office buildings with 756,825 total gross square foot of space with 745,826 square foot used for a vacancy rate of 1.5%"

In reviewing the data on the vacancy rate of State-owned office space, it appears this is an accurate reflection of the total gross square feet leased by State agencies against the total number of square feet available in State-owned buildings. This calculation type is in-line with industry standards for determining vacancy rates (see table insert below).

Building	Gross SF	Leased SF	Percent Occupied	Vacancy Rate
Nebraska State Office Building	486,341	484,637	99.6%	0.4%
Craft State Office Building	40,825	40,489	99.2%	0.8%
Omaha State Office Building	229,659	220,700	96.1%	3.9%
Total	**756,825**	**745,826**	**98.5%**	**1.5%**

PMG reports gross square feet as "rentable square feet" or the amount of space available for agencies to lease. It was not evident that PMG tracks the "useable square feet" of buildings which contemplates the rentable square feet less elevators cores, mechanical ducts, structural columns, etc. While it is important to understand useable square feet, it would not affect the integrity of PMGs KPI when evaluating vacancy rates.

What the vacancy rate of State-owned office space KPI does not address is the efficiency of such leased space. The SBD has developed the following space standards for both State-owned and commercial leases.

Classification	SF/Per Person
Officials and Administrators	120-300
Professionals	100-180
Para-Professionals	64-156
Technicians	50-100
Skilled Craft Workers	
Administrative Support	40-80
Service-Maintenance	
Protective Service Workers	25-60

While there are standards in place and while agencies appear to work with space planners in the layout of floor plans, during interviews with PMG staff, it appears that acceptance of the application of the standards vary by agency and much of the determination of the amount of space a particular agency requires is left up to the agency itself. As long as the request is processed by the PMG and validated and approved at various levels within the SBD and the State, there appears to be minimal oversight, and to the extent possible by PMG, enforcement of space qualifications and standards.

Commercial Real Estate Advisors/Brokers

Traditionally PMG has not used commercial real estate advisors or brokers (collectively "Brokers") to aid in evaluating leased space with third-party commercial landlords. PMG instead uses such industry resources such as subscription web-based LoopNet (limited market information provided for free) and CoStar (PMG has one subscription for the office that covers the Lincoln and Omaha markets and surrounding sub-markets).

Pilot With CBRE MEGA

In 2012, PMG authorized real estate provider CB Richard Ellis' Omaha affiliate, CBRE MEGA, to handle approximately four to six commercial lease renewals as a pilot program, under which CBRE MEGA would recover its fee, if any, through a commission paid by the Landlord; a traditional approach in tenant representation by Brokers.

CBRE MEGA was involved in several new lease and renewal transactions in North Platte, Broken Bow, Kearney and Norfolk. The transactions ranged from several hundred to several thousand square feet. The results of the pilot appear inconclusive, though it is clear PMG did not feel CBRE MEGA added value to the process. Below is PMG's summary Performance Evaluation of CBRE (a complete copy of PMG's evaluation is included in **Exhibit 6**):

CBRE PERFORMANCE EVALUATION

1. The following Lessors refused to work with CBRE, due to Compensation fee (equal to three percent (3%) of the gross lease value, payable in full at lease execution):
   CA-65122616 / formerly 65920116 Dept of Revenue, Kearney
   CA-65121081 / formerly 65072481 CBVI Apartments, Lincoln

   SBD was able to negotiate renewals with these Lessors.

2. Regarding the first Nebraska State Patrol RFP# 65112064 in Broken Bow:
   A. Bidders expressed concern that the Compensation fee was increasing their proposed psf.
   B. An evaluation score sheet comparing the two bids was provided by Broker only after SBD requested one. SBD then requested that the submitted score sheet include more information to aid NSP in their decision making.
   C. It was a challenge receiving and relaying necessary communication between all parties; SBD, Michael, Jamie, and Bidders.

3. The Supreme Court requested assistance in finding 970 sf of office space within the 3rd District (Gretna area). Of the two sites CBRE proposed within the District, one was approx. 2,100 sf; the 2nd site was in disrepair.

4. Email correspondence often lacked attention to detail, including:
   A. Omission of CA# in header, making it difficult to quickly identify the contract in question
   B. Some contract numbers were mistyped and not corrected when accuracy was questioned.

One of the primary concerns of PMG is whether CBRE MEGA's fees charged to a landlord, which are typically 6% but were not charged during the pilot, would ultimately get passed through to the State of Nebraska resulting in increased cost. In reviewing data, correspondence and from interviews with staff, PMG felt CBRE MEGA's involvement was not only subpar but would also increase the cost of the lease to the State. Since completion of the pilot study, PMG has reverted to completing all commercial lease transactions "in-house."

In interviews with CBRE MEGA[20] about the pilot study, it felt that PMG staff was more tactical than strategic in its approach to handling the State's real estate and that while there were opportunities to create and add value it would take the cooperation of PMG, the State agency, as well as CBRE MEGA to ensure success. The CBRE MEGA employees felt that PMG did not trust their advice. CBRE MEGA did not earn any fees as a result of its work with SBD.

While CBRE MEGA presented it assessment (see **Exhibit 7**) of the pilot to the State Appropriations Committee demonstrating approximately $39,000 was saved as a result of CBRE MEGA's involvement in renewal of three leases, this presentation may be somewhat misleading in that CBRE MEGA doesn't set forth the fees that would normally be charged for its services and assumes that the SBD could not have negotiated similar arrangements with these lessors.

[20] Discussions with CBRE MEGA staff on Tuesday, February 18, 2014

On the other hand, the leases included in the pilot for negotiation by CBRE MEGA were not likely the best ones to allow testing of what might be the benefits of CBRE MEGA's services. Some of the leases in the pilot were in remote locations of the state, when CBRE MEGA is most likely to provide value in Omaha.

Our assessment of the pilot with CBRE MEGA is that the pilot was not a fair test in which the parties cooperated fully creating the best circumstances for success.

In the future, should the State wish to use brokerage firm(s) it is of note that State Statute 73-203 regarding contingent fees may further limit the ability of brokerage firms to earn future contingent fees over $25,000 unless involvement from the Governor and public notification. The Statute states:

"Any contingent fee contract of any kind whatsoever reasonably anticipated to result in the payment of a contingent fee or fees in excess of twenty-five thousand dollars per annum executed by the state or by any person on behalf of the state after September 9, 1995, is void unless executed by the Governor upon thirty days' notice to the public at large."[21]

Industry Benchmarking

When considering benchmarking opportunities, it is important to evaluate the real estate management practices of those Midwestern states in the heartland near the State of Nebraska. For purposes of this analysis the states of Colorado, Iowa, Kansas, Missouri and Oklahoma were reviewed.

The State, currently with three full-time employees, handles approximately 1.3 million square feet of owned and leased properties per employee. The State of Iowa compares the closest with an average of 977,339 square feet per employee. The states of Colorado, Missouri and Oklahoma average 2,322,195; 2,430,000; and 14,337,208 square feet per employee respectively.

Benchmark states primarily use Microsoft Access or Microsoft Excel to track inventories of properties. The State of Missouri utilizes Archibus, a real estate specific application. As previously mentioned the State of Nebraska uses Microsoft Access and has recently purchased ProLease, a lease administration software.

Both the states of Colorado and Missouri have outsourced at least one activity/function of real estate management. The states of Iowa, Kansas and Oklahoma conduct all real estate activities within the in-house real estate department.

The State of Missouri currently outsources excess property sales to a third-party commercial real estate (CRE) provider, Jones Lang LaSalle (JLL). The contract was awarded to JLL in January 2011.

The State of Colorado currently outsources all sales and leasing activities to two third-party CRE providers, JLL and Quantum Commercial Group Inc. Based upon the geographical location of the property, either JLL or Quantum will handle the requirement. The contracts were awarded in July 2009.

[21] Laws 1995, LB 519 §2

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Comparative Table[22]	Nebraska	Colorado	Iowa	Kansas	Missouri	Oklahoma
Organization	Department of Administrative Services, State Building Division (Property Management Group)	Office of the State Architect, Real Estate Programs	Department of Administrative Services. General Services Enterprise	Department of Administration, Office of Facilities & Property Management (Real Estate & Leasing)	Office of Administration, Real Estate Services	Office of Management and Enterprise Services, Division of Capital Assets Management
FTEs	3[23]	2	3	1	10[24]	6
Where is Inventory Maintained	Access Database; ProLease	Access or other database	Access or other database	Access Database	Archibus	Excel Database
Do Agencies "Pay Rent" for State-Owned Property	Yes	Yes	Yes	Yes	Yes	Yes
Rent/Fee Detail	Rate per sq. ft. and 1% assessment fee	Fees to cover utility expenses for the capital complex property	Association fee per sq. ft.	Flat fee per sq. ft. plus monumental surcharge fee when applicable	Rent based on prior year annual cost of operations	Usually flat rate per sq. ft., with exceptions
Responsible for Determining Use of State-Owned Property	State Building Division	Agency that holds title	Department of Administrative Services.	Department of Administration	Commissioner of Office of Administration	Office of Management and Enterprise Services
Square Footage Owned	3,000,000	1,241,815	1,782,829	Not reported	21,000,000	79,278,300
Square Footage Leased	1,000,000	3,402,576	1,149,189	Not reported	3,300,000	6,744,947
Average Length of Rental Contracts	2 years with renewals (State Owned) or, 5-10 years for larger spaces (3rd Party Commercial)[25]	5 years	1-3 or 5 years	Not reported	1 year with four 1 year renewals	Not reported
Aspects of Real Estate Management Privatized	No	Yes[26]	No	No	Yes / asset sales and other aspects	No

[22] Data for the states of Colorado, Iowa, Missouri and Nebraska are derived from The PFM Group report unless specifically noted. Data for the states of Kansas and Oklahoma are derived from the states' website, budget, available state's real property reports and surveys.

[23] An additional fourth FTE position is currently vacant (Staff Assistant II).

[24] Includes six State Leasing Coordinators as of Feb. 14, 2014, as provided by the Missouri Accountability Portal.

[25] Clarification from the PFM report – delineating between State owned and 3rd party commercial leases.

[26] Although the PFM report indicates that Colorado does not privatize any aspect of its real estate management, the State website indicates it uses CRE third-party brokers when leasing or purchasing real property.

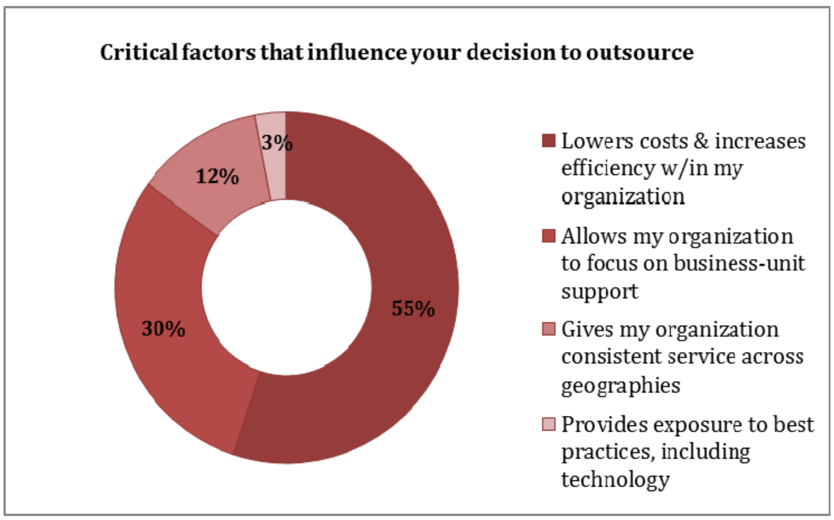
Trends | Outsourcing of Commercial Real Estate Functions

Outsourcing of select real estate management activities in both the public and private sectors continues to grow in popularity as top decision makers strategically plan for and understand the long-term financial impact of real estate assets. As senior leadership continues to demand bottom-line cost savings, real estate departments are exploring the possibility of teaming with an outside commercial real estate (CRE) provider. In fact, a 2013 study shows 92 percent of CRE executive respondents working for private sector companies containing at least 1,000 employees are practicing some form of real estate outsourcing[27]. This indicates that CRE outsourcing is quickly catching up to other types of outsourced functions such as Information Technology, Human Resources and Finance.

As real estate departments balance a variety of day-to-day activities with long-term strategic goals and demands, approximately three out of four CRE executives note increasing pressure to perform in the following three areas[28]:

1 | Reducing direct real estate costs
2 | Increasing utilization of existing buildings in portfolio
3 | Reducing the operational costs of the real estate portfolio

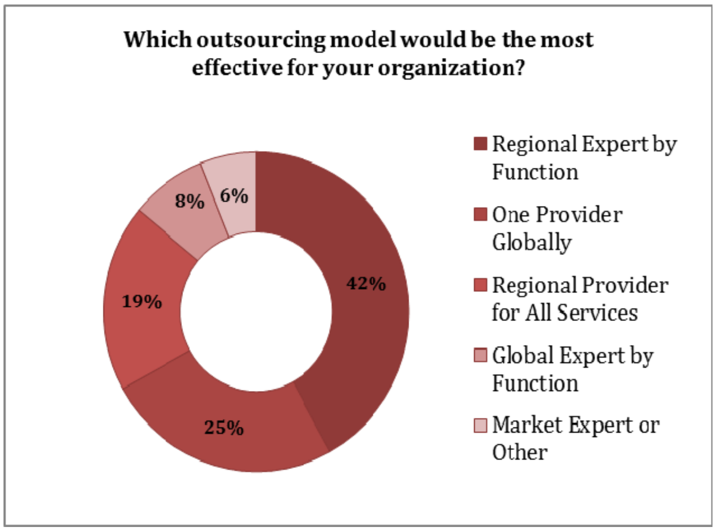
In addition, a 2013 study of 300 corporations ranked in order the critical factors that influenced their decision to outsource to a third-party CRE provider. Lowering costs and increasing efficiency ranked first[29]:

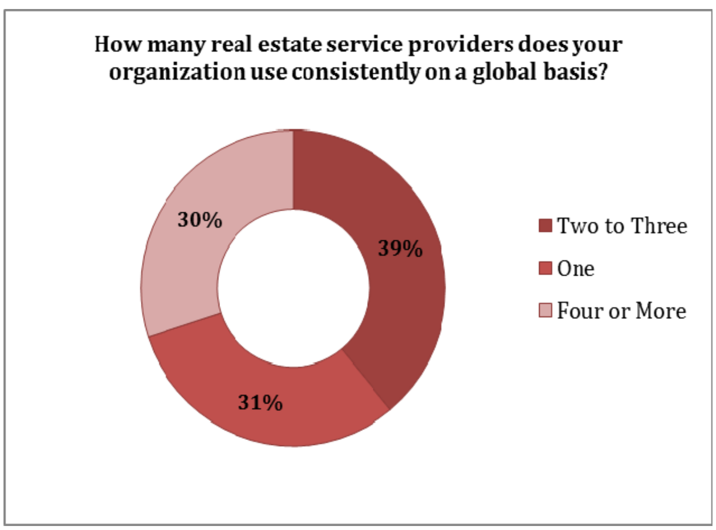


27 Jones Lang LaSalle. "Risks Ahead – Global Corporate Real Estate Trends 2013." http://www.jll.com. Data accessed on Feb. 6, 2014.
28 Jones Lang LaSalle. "Risks Ahead – Global Corporate Real Estate Trends 2013." http://www.jll.com. Data accessed on Feb. 6, 2014.
29 Cushman & Wakefield. "Global Trends in Real Estate Outsourcing (2012-2013)." http://www.cushmanwakefield.com. Data accessed on Feb. 6, 2014.

To address some of these demands, third-party CRE firms have been able to offer solutions for a variety of services including portfolio strategy, portfolio management, property management, project management, development management, transactional services (sale and leasing), energy and sustainability services, and lease administration. While the majority of public entities and private sector firms still do not currently outsource all real estate functions and activities to a third-party CRE provider (90 percent), studies have shown that CRE outsourcing can provide 10 to 20 percent occupancy cost savings[30].

Augmented by the "Great Recession" of 2007 to 2009, many in-house real estate departments have turned to third-party CRE firms to fill skill gaps and produce results tied to projected KPIs. However, despite the growth CRE outsourcing has experienced over the past seven years, a single preferred model for the amount of outsourced services, number of providers utilized, and overall dependence has not been determined[31]:

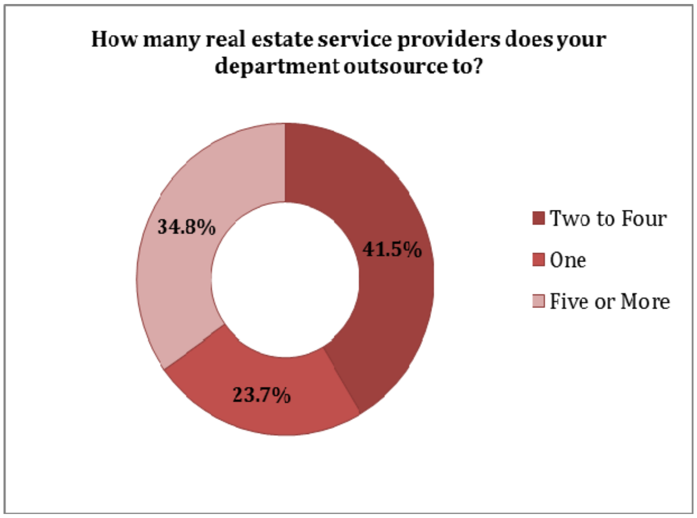




[30] White, Chris. National Real Estate Investor. "CRE Outsourcing: An Upside to the Downturn?" Nov. 21, 2012. http://nreionline.com/blog/cre-outsourcing-upside-downturn. Data accessed on Feb. 6, 2014

[31] Cushman & Wakefield. "Global Trends in Real Estate Outsourcing (2012-2013)." http://www.cushmanwakefield.com. Data accessed on Feb. 6, 2014.

In addition, based upon a separate 2011 study, CRE managers most commonly report their department is working with two to four service providers (41.5%) versus only one (23.7%)[32]. Thus, data from both studies indicate that many clients are using a limited number of service providers to handle all their corporate real estate outsourcing needs.



For real estate departments who are partnering and outsourcing services to CRE third-party firms, positive results must be provided and realized within a relatively short time frame to continue the relationship. Almost two-thirds of real estate departments (60.7%) have been working with the outsourcing partner who delivers the highest value to their firm for one to five years and another 19.3% six to ten years.

As previously stated, outsourced services vary in complexity and range from transaction, lease and facilities management to strategy, portfolio and risk management. Transaction management, a relatively common and less complex task, is most frequently outsourced to the service provider who delivers the highest value to the organization (70.4%), followed by lease negotiation (61.5%) and project management (44.4%). Risk management, a complex and strategic task, is the least commonly outsourced function (5.2%), followed by client relationship management (14.8%) and workplace design (14.8%). The majority of CRE departments surveyed (60.1%) outsource four or fewer tasks to their service provider delivering the highest value[33].

As real estate departments in both the public and private sectors continue to explore the ideal ways to both reduce costs and increase space efficiencies across their real estate portfolio, outsourcing models will evolve. Those CRE third-party firms who can provide value-add services/processes in a timely manner which aligns with the goals and strategic vision of the in-house real estate department will be able to create and deliver the best bottom-line investment.

[32] Julia Freybote & Karen M. Gibler (2011). "Trust in Corporate Real Estate Management Outsourcing Relationships." Journal of Property Research, 28:4, 341-360, DOI. http://dx.doi.org/10.1080/09599916.2011.592207.
[33] Julia Freybote & Karen M. Gibler (2011). "Trust in Corporate Real Estate Management Outsourcing Relationships." Journal of Property Research, 28:4, 341-360, DOI. http://dx.doi.org/10.1080/09599916.2011.592207.

Trends | Audits of Government Real Estate Management

There have been multiple studies/audits performed to review the way government entities manage government owned and leased real estate. From inefficiencies and inaccuracies in data and database management to unclear contract scopes of services, organizational conflicts of interest and a lack of follow-through and implementation of strategic visions, government at multiple levels is realizing and acting upon the importance of real estate management.

The Government Accountability Office (GAO) and Congress have identified real property management as a **high-risk area** in agencies across the Federal Government stating "there is a trend in government for inefficiencies in this area and lack of implementation of plans/strategies agencies might have."

State of Illinois Management Audit[34]

The State of Illinois' Management Audit regarding the State's space utilization program in 2004 indicated that the State had inefficiencies.

The key findings of this audit were:

- The Department of Central Management Services' (CMS) does not maintain an accurate and complete inventory of real property owned by the State. For example 28% of state owned parcels on the sample were not included on the state property database; an automated system developed by the department to report on real property owned by the State contained inaccurate information and its use was discontinued; and agencies reported that there were 201 properties that were owned by the agencies but which were not included in the CMS master record or were assigned to the incorrect agency.
- The CMS has no formal policies and procedures for ensuring that excess and surplus real property is reasonably considered when filling State agencies' space request.

Failure to properly monitor and identify excess building space results in the State leasing space when there may be other opportunities for dollar savings. Due to the inaccuracies found in monitoring real property and space utilization, a significant amount of excess space also exists at State-owned facilities.

A coordinated approach to real property planning could assist the agencies in making better use of the land and buildings they own and allow for more cost efficiencies in State government.

[34] State of Illinois - Office of the Auditor General. "Department of Central Management Services' Administration of the State's Space Utilization Program." February 2004.

National Aeronautics and Space Administration (NASA) Audits[35]

Although the PFM study listed NASA's development of long-term plans for property as best practices, two follow up audits, in 2012 and 2013, showed that the agency has struggled to make significant headway in following through on its plans and meeting its own goals.

The auditors concluded that previous efforts by NASA to reduce its underutilized facilities have been hindered by:

1- Fluctuating and uncertain strategic requirements;
2- Agency culture and business practices;
3- Political pressure;
4- Inadequate funding.

These hindrances caused NASA to continue to have key infrastructure underutilized and unneeded for future missions. For example, the audit found that there were at least 33 facilities that were underutilized or for which NASA managers could not identify a future mission use.

NASA has recently taken positive steps to manage its infrastructure, but sustained leadership and oversight will be required to overcome longstanding challenges. The following are NASA's initiatives:

1- Organizational structure changes;
2- Facilities strategy and integrated agency-wide master planning;
3- Corporate portfolio management;
4- Improvement to real property data;
5- Development of a strategic technical capabilities assessment.

Federal Real Property Audit[36]

Based on a Government Accountability Office's (GAO) report, federal real property management remains a high-risk area, in part because of long-standing problems including excess and underutilized property, reliance on leasing and challenges with security.

GAO found in 2013 that data problems continue to hamper federal efforts. The auditors examined government real property data and identified inconsistencies and inaccuracies at 23 of the 26 locations visited in 2011 and 2012. These inconsistencies in key data elements related to the management of excess and underutilized property, including utilization, condition, annual operating costs, and value of the buildings.

Even though previous and present administrators have sought to generate cost savings associated with improving management of real property, some of the efforts have been discontinued and potential savings for others are unclear.

[35] NASA – Office of Inspector General. "NASA's Infrastructure and Facilities: An Assessment of the Agency's Real Property Leasing Practices." August 9, 2012; NASA – Office of Inspector General. "NASA's Efforts to Reduce Unneeded Infrastructure and Facilities." February 12, 2013.
[36] United States Government Accountability Office. "Federal Real Property - Excess and Underutilized Property is an Ongoing Challenge." April 25, 2013.

It is important to note that federal agencies have taken some actions to dispose of and better manage these properties, such as using excess and underutilized property to meet space needs, and consolidating offices and reducing employee workspace to use space more efficiently. However, the agencies still face challenges managing these properties. For example, property disposal costs can outweigh the financial benefits of property disposal

GAO recommended that Government Services Administration (GSA) develop a plan to improve the government database of real property and that Office of Management and Budget (OMB) develop a national strategy for managing federal excess and underutilized real property.

State of Tennessee Performance Audit[37]

Based upon a Comptroller of the Treasury report released in November 2013 for the State of Tennessee, after reviewing the Statewide Facility Assessment, Master Planning and Facility Management Services Contract, the audit found that the Real Estate Asset Management (STREAM) Division entered into a contract with a CRE third-party firm, Jones Lang LaSalle (JLL), which was too broad in scope. To ultimately accomplish the apparent specific goals that STREAM intended, STREAM used amendments to refine its intentions in its contract with JLL. Ultimately, some of these amendments created an organizational conflict of interest whereby JLL can profit from its own planning and leasing recommendations.

In October 2011, STREAM issued a Request for Proposal (RFP) to the vendor community seeking vendors to provide services to the state. On January 23, 2012, the SBC approved a $1,000,000 Statewide Facility Assessment, Master Planning, and Facility Management Services Contract (the Master Planning Contract) to JLL. As of July 31, 2013, STREAM management amended the original scope and contract dollar maximum with five amendments which increased the maximum contract liability to $7,650,000.

The report also states that the first and second amendments placed JLL in a position to offer the state advice and then reap the benefits of its own recommendations, creating an organizational conflict of interest. It continues stating, “Although Tennessee law, rules, and regulations are silent on the matter, it is presumed that a vendor who offers the state advice should not be permitted to bid and be awarded a contract which would allow the vendor to act on the advice it originally provided.”

Observations

In reviewing PMG processes and procedures in administering the State’s real estate and researching industry trends the following observations were made:

1. The PMG department is dedicated and hardworking but understaffed. Generally, tenure and experience of the employees was low with many not having commercial real estate experience prior to joining SBD.

2. The PMG group is highly cost effective for the State of Nebraska, managing all state owned and leased property with three full-time employees at total salary cost of approximately $117,000 charged to the SBD.

[37] State of Tennessee - Comptroller of the Treasury. “Department of General Services Performance Audit Report”. November 2013.

3. Much of the work by the PMG team is administrative in nature and employees manage large amounts of data with basic Microsoft Access and Excel software. Despite basic tools and general inefficiencies, process is followed and well documented. Building and lease files were readily accessible and well organized, the Access database was useful and functional, its reports generally accurate. Administrative duties were spread among the team in a logical manner.

4. The Vacant Building Excess Land (VBEL) process appears to be followed administratively and in accordance with policy; meetings are set, attended and recorded, however, it appears a more focused approach could be taken to effectively prioritize and reposition such properties.

5. Successful lease negotiation with third party landlords on commercial office leases seems to be limited. The PMG team does not appear to exhibit the experience or have the necessary skillset and/or tools to leverage the State's size, stability and creditworthiness in leasing transactions.

6. The PMG team's analysis of data, specifically its KPIs, appeared overly broad in nature and at times inaccurate. Vacancy rates are accurately tracked against leases in State-owned buildings but space efficiency, actively tracked as a KPI, does not appear to be a priority of SBD nor PMG. It is unlikely that at current staffing levels PMG could make this a priority.

7. The PMG team seems willing to accept change in the form of new tools such as ProLease software and CoStar subscriptions but less willing to accept change in the form of relationships with third party brokerage. There is a skepticism by PMG that outside expertise is of any value and a conclusion that landlord will either not work with outside brokers or pass thru costs of commissions to the State in the form of increased rent and/or escalations.

8. The State of Nebraska DAS is managing the State's real estate in manner consistent with other bordering states. In areas of lease management software, it is even more progressive that other Midwestern states.

9. Commercial Real Estate (CRE) outsourcing trends continue to grow in the private sector with 92% of CRE executives using some kind of outsourcing. With the exception of Colorado, which does outsource property sales and leasing, most states in the Midwest still retain real estate functions in house.

10. To the extent it exists, it is important to maintain "checks and balances" with outsourcing and avoiding organization conflict. The role of the both the state real estate representative and outsource provider must be complimentary and not duplicative. Furthermore, appropriate steps should be taken to avoid conflicts of interest and ensure appropriate bidding of significant contracts.

Recommendations

Based on the review of PMG's function within SBD and DAS, the following are recommended based on priority:

Priority (High)[38]:

1. Ensure, to the extent it has not been completed as of the date of this study, that the vacant position responsible for handing parking is filled.

2. Ensure that the transition and migration of data to ProLease is completed and that all PMG employees are adequately trained and proficient with the software.

3. Augment PMG team by utilizing outside brokerage firms for third-party commercial office leases with sophisticated lessors in Lincoln, NE and Omaha NE. The State will likely benefit from the expertise that outside brokerage firms can bring to these larger Nebraska markets. Between March 1, 2014 and December 31, 2017, approximately 30 commercial office leases comprising more than 380,000 square feet are expiring in these markets with a combined annual lease rate of $5.5 million dollars. Emphasis should be placed on brokers that have the most experience in office leasing in these markets, regardless of firm affiliation.

4. Add one additional FTE to the PMG to free up time of the Program Property Manager to engage in more strategic thinking and proactive planning related to the State's real estate assets and leases.

Priority (Medium)[39]:

5. Create accurate KPIs to manage progress and measure success. These KPIs should be detailed, specific and comprehendible and should be backed up with clear and concise data. A PMG dashboard with all KPIs should be created.

6. Begin to measure space efficiency in State-owned buildings in addition to vacancy rates. Space standards should be used with practicality and in the best interest of the State taxpayers. Consideration should be given to utilizing an outside service provider to conduct space audits and "dark space" studies to help identify areas of opportunities. PMG should work more closely with space planners to enforce space efficiency standards and ensure optimal utilization of State-owned space.

Priority (Low)[40]

7. Create a robust strategic plan around VBEL; prioritizing properties and creating implementable plans to reposition or dispose. Look to partner with outside brokerage firms for strategic advice on, and aid in, disposition of assets.

8. Broaden scope of outside brokerage relationships to strategic assets outside of Lincoln, NE and Omaha NE. Assets should be evaluated with respect to size (SF), annual lease rate, complexity and expiration date.

[38] SBD should look to implement immediately
[39] SBD should look to implement within 6 months.
[40] SBD should look to implement within 12 months.

Exhibit 1

BKD Contract

SERVICE CONTRACT
Administrative Services/State Building Division

NEBRASKA AdministrativeServices State Building Division

This Agreement, made and entered into as of January 10 , 2014 is between the following:

THE OWNER
AS/State Building Division
State of Nebraska
1526 K St, Suite 500
Lincoln, NE 68508

THE CONTRACTOR
BKD, LLP
910 E. St. Louis Street, Suite 200
PO Box 1190
Springfield, MO 65801-1190

The State of Nebraska (hereinafter referred to as "State" and BKD, (hereinafter referred to as "Contractor") agree as follows:

A. That the State is in need of a comprehensive assessment of the State Building Division Owned and Leased Property Program (as defined in Attachment A – Statement of Work) and further detailed in Attachment B – BKD Proposal dated November 15, 2013, to assess the management, administration and operation of owned and leased real estate that is subject to the authority of the state building division of the Department of Administrative Services.

B. That Contractor is able to provide a comprehensive assessment to the State by March 1, 2014.

C. That the State desires to enter into an Agreement with Contractor to provide the requested assessment services to the State forthwith.

THEREFORE, the parties agree as follows:

1. SCOPE OF WORK – The scope of work is as defined in Attachment A and Attachment B, appended to this agreement. The State acknowledges that these services are not designed to discover errors, misrepresentations, fraud or illegal acts, and Contractor has no such responsibility. Because of the limits in any internal control structure, errors, fraud, illegal acts or instances of noncompliance may occur and not be detected. Also, in the future, procedures could become inadequate because of changes in conditions or deterioration in design or operation. Two or more people may also circumvent controls or management may override the system.

2. Contractor will not provide interpretation of legal matters. The State should seek the advice of legal counsel in such matters.

3. Contractor will not make management decision or perform management functions, the responsibility for which remains with management and the State.

4. Contractor will use and rely on information furnished by the State, its employees and representatives and on information available from generally recognized public sources. Contractor is not responsible for the accuracy and completeness of the information and is not responsible to investigate or verify it.

5. The State agrees to supply Contractor the necessary information and allow access to personnel to assist in performing services under this contract. A list of information and assistance that State personnel will need to provide will be supplied by Contractor. The State's failure to fulfill this responsibility in a timely manner may impair Contractor's ability to provide services under this contract.

6. The State agrees to assume full responsibility for the substantive outcomes of the services described above, including any findings that may result. The State acknowledges that the services described above are adequate for its purposes and that the State will establish and monitor the performance of these services to ensure that they meet management's objectives. Any and all decisions involving management functions related to these services will be made by the State, and the State accepts full responsibility for such decisions. Contractor understands that the State has designated a management-level individual to be responsible and accountable for overseeing the performance of these services, and that the State has determined this individual is qualified to conduct such oversight.

7. The Contractor affirms that it complies with, and will continue to comply with, the Nebraska Fair Employment Practice Act and Title VI of the Civil Rights Act of 1964, as amended. The Contractor affirms that no person (including employees or applicants for employment) shall, on the grounds of age, religion, sex, disability, race or national origin, be excluded from participation in, be denied the benefits of, or otherwise subjected to discrimination under this contract or any other project, program or activity supported by this contract. The Contractor agrees that in performance of this contract neither he nor his subcontractors, if any, will discriminate against any of their employees or applicants for employment concerning the employees' or applicants' hire, tenure, terms, conditions or privileges of employment based on the employees' or applicants' race, color, religion, sex, marital status, age, disability or national origin.

8. The Contractor certifies that as a condition of this Agreement, neither the Contractor nor the employees of the Contractor shall engage in the unlawful manufacture, distribution, dispensing, possession, or use of a controlled substance in conducting any activity covered by the Agreement. The AS/SBD reserves the right to request a copy of the Contractor's Drug Free Workplace policy. The Contractor further agrees to insert a provision similar to this statement in all sub-contracts for services required under this Agreement, if any.

9. This Agreement shall be governed by the laws of the State of Nebraska. The Contractor agrees to comply with all applicable Federal, State, and local rules, regulations, and laws.

10. As per the requirements of Neb. Rev. Stat. § 81-1716 through § 81-1719, the Contractor warrants that he or she has not employed or retained any company or person, other than bonafide employees working for him or her, to solicit or secure this Agreement and that he or she has not paid, or agreed to pay, any person, company, corporation, individual, or firm, other than a bonafide employee working solely for him or her, a fee, commission, percentage, gift, or any other consideration contingent upon or resulting from the award for the making of this Agreement.

11. The Contractor agrees to comply with all applicable provisions of the Federal Rehabilitation Act of 1973, as amended, the Americans With Disabilities Act of 1990, as amended, Section 5043 of the Rehabilitation Act of 1973, as amended, the Age Discrimination Act of 1975, as amended, and the Nebraska Fair Employment act, as amended. The Contractor agrees to comply with any amendments to these laws effective during the term of this Agreement. The Contractor further agrees to include similar provisions in all subcontracts, if any, for services allowed in connection with this Agreement.

12. The State or Contractor may cancel this Contract at any time without cause upon thirty (30) days written notice.

13. The State may terminate this Contract, in whole or in part, in the event funding is no longer available. The State's obligation to pay amounts due for fiscal years following the next fiscal year are contingent upon legislative appropriation of funds for this Contract. Should said funds not be appropriated, the State may terminate this contract with respect to those payments for succeeding fiscal years for which such funds are not appropriated. The State will give the Contractor written notice thirty (30) days prior to the effective date of any termination. All obligations of the State to make payments after the termination date will cease. The Contractor shall be entitled to receive just and equitable compensation for any authorized work which has been satisfactorily completed as of the termination date. In no event shall the Contractor be paid for a loss of anticipated profit.

14. In case of such termination for the State's convenience, or for insufficient appropriation or allocation of funds, the Contractor shall be entitled to receive payment for Work executed, and reasonable costs incurred as a direct result of such termination. HOWEVER, IN NO CASE shall the Contractor receive payment for any Work not executed, and the Contractor shall NOT receive payment for overhead and profit on the Work not executed.

15. Payment to the Contractor by the State will be made in accordance with the State of Nebraska Prompt Payment Act, Neb. Rev. Stat. §§ 81-2401 through 81-2408, which provides for invoices to be paid within 45 days. Contractor will issue progress billings, not less frequently than monthly. Contractor reserves the right to suspend or terminate services if fees are not paid within 60 days. In the event Contractor's work is suspended or terminated as a result of nonpayment, the State agrees Contractor will not be responsible for any consequences to the State.

16. Contractor's fee, as provided in Attachment B, does not include any time for post-engagement consultation with the State or third parties, inquiries from regulators or testimony or deposition regarding any subpoena. Charges for such services will be billed separately.

17. Any provision of this Contract, which, on its effective date, is in conflict with the Statutes of the State of Nebraska or the laws of the United States of America is hereby amended to conform to their minimum requirements. Contractor agrees to hold the State harmless for compliance with federal and/or state statutes which are the responsibility of the Contractor.

18. A party's failure to require strict performance of any provision of this Contract shall not waive or diminish that party's right thereafter to demand strict performance with that or any other provision. No waiver by a party of any of its rights under this Contract shall be effective unless express and in writing, and no effective waiver by a party of any one of its rights shall b effective to waive any other rights.

19. The State of Nebraska shall have the unlimited right to publish, duplicate, use and disclose all information and data developed or derived by the Contractor pursuant to this Contract. However, any time the State intends to reference our firm name in any manner in any published materials, including on an electronic site, the Contractor will be provided with draft materials for review and approval before publishing or posting such information. The Contractor guarantees that it has the full legal rights of materials, supplies, and equipment utilized in execution of this Contract. The Contract price includes, without exception, compensation for all royalties and costs arising from patents, trademarks, and copyrights that are in any way involved in the Contract. It is the responsibility of the Contractor to pay for all royalties and costs, and Contractor shall hold the State harmless from any such claims.

20. Workpapers and documentation retained by Contractor in any form of media are the property of the Contractor.

21. Contractor shall obtain and pay for all permits, licenses, and approvals necessary for the execution of the Contract. Contractor shall comply with all laws, ordinances, rules, orders and regulations related to the performance of the Contract.

22. The State may award supplemental contracts for work related to this Contract, or any portion thereof. Contractor agrees to cooperate with such other contractors, and shall not commit or permit any act which may interfere with the performance of work by any other contractor. Contractor further agrees to include a similar provision in any subcontracts awarded in connection with this contract.

23. It is agreed that nothing contained herein is intended or should be construed in any manner as creating or establishing the relationship of partners between the parties hereto. Contractor represents that it has, or will secure at its own expense, all personnel required to perform the services under this agreement. Contractor or other persons engaged in work or services required by the Contractor under this Contract shall not be considered employees of the State. All claims on behalf of any person arising out of employment or alleged employment (including without limit claims of discrimination against the Contractor, its officers or agents) shall in no way be the responsibility of the State. Contractor will hold the State harmless from any and all such claims. Such personnel or other persons shall not require nor be entitled to any compensation, rights or benefits from the State including, without limit: tenure rights, medical and hospital care, sick and vacation leave, severance pay or retirement benefits.

24. Contractor will not utilize any subcontractors in the performance of the Contract without the prior written authorization of the State. The State has agreed to the use of Zimmer Real Estate Service, L.C. as a subcontractor, as provided in paragraph 41.

25. Contractor warrants that all persons assigned to the project are employees of the Contractor or specified subcontractors, and are fully qualified to perform the work required herein. Personnel employed by the Contractor to fulfill the terms of this Contract shall remain under the sole direction and control of the Contractor. Contractor shall include a similar provision in any contract with any subcontractor selected to perform work on the project.

26. Contractor shall not assign or transfer any interest in the Contract without the prior written consent of the State. The rights of the State under this Contract shall be assignable to any other agency of the State with prior written notice to the Contractor.

27. If any term or condition of the Contract is declared by a court of any competent jurisdiction to be illegal or in conflict with any law, the validity of the remaining terms and conditions shall not be affected, and the rights and obligations of the parties shall be construed and enforced as if the Contract did not contain the particular provision held to be invalid.

28. The Contractor shall not commence work under this Contract until he or she has obtained all the insurance required hereunder and such insurance has been approved by the State nor shall the Contractor allow any subcontractor to commence work on his or her subcontract until all similar insurance required of the subcontractor has been obtained and approved by the State. Approval of the insurance by the State shall not relieve or decrease the liability of the Contractor hereunder.

If by the terms of any insurance a mandatory deductible is required, or if the Contractor elects to increase the mandatory deductible amount, the Contractor shall be responsible for the payment of the amount of the deductible in the event of a paid claim.

A. WORKERS' COMPENSATION INSURANCE

The Contractor shall take out and maintain during the life of this Contract the statutory Workers' Compensation and Employer's Liability Insurance for all of his employees to be engaged in work on the project under this Contract and, in case any such work is sublet, the Contractor shall require the subcontractor similarly to provide Workers' Compensation and Employer's Liability Insurance for all of the latter's employees to be engaged in such work. This policy shall be written to meet the statutory requirements for the state in which the work is to be performed, including Occupational Disease. Where applicable, this policy shall provide USL&H coverage. This policy shall include a waiver of subrogation in favor of the State. The amounts of such insurance shall not be less than the limits stated hereinafter.

B. COMMERCIAL GENERAL LIABILITY INSURANCE AND COMMERCIAL AUTOMOBILE LIABILITY INSURANCE

The Contractor shall take out and maintain during the life of this Contract such Commercial General Liability Insurance and Commercial Automobile Liability Insurance as shall protect him or her and any subcontractor performing work covered by this Contract from claims for damages for bodily injury, including death, as well as from claims for property damage, which may arise from operations under this Contract, whether such operation be by the Contractor or by any subcontractor or by anyone directly or indirectly employed by either of them, and the amounts of such insurance shall not be less than limits stated hereinafter.

The Commercial General Liability Insurance shall be written on an occurrence basis, and provide Premises/Operations, Products/Completed Operations, Independent Contractors, Personal Injury and Contractual Liability coverages. The policy shall include the State, and others as required by the Contract Documents, as an Additional Insured. This policy shall be primary, and any insurance or self-insurance carried by the Owner shall be considered excess any non-contributory. The Commercial Automobile Liability Insurance shall be written to cover all Owned, Non-owned and Hired Vehicles.

C. INSURANCE COVERAGE AMOUNTS REQUIRED

a.	Workers' Compensation and Employer's Liability	
	Coverage A	Statutory
	Coverage B	
	Bodily Injury by Accident	$100,000 each accident
	Bodily Injury by Disease	$500,000 policy limit
	Bodily Injury by Disease	$100,000 each employ
b.	Commercial General Liability	
	General Aggregate	$2,000,000
	Products/Completed Operations Agg.	$2,000,000
	Personal/Advertising Injury	$1,000,000 any one person
	Bodily Injury/Property Damage	$1,000,000 per occurrence
	Fire Damage	$50,000 any one fire
	Medical Payments	$5,000 any one person
c.	Commercial Automobile Liability	
	Bodily Injury/Property Damage	$1,000,000 comb. single limit
d.	Umbrella/Excess Liability	
	Over primary insurance	$1,000,000 per occurrence

D. EVIDENCE OF COVERAGE

The Contractor shall furnish the State with a certificate of insurance coverage, which shall be submitted in duplicate to the Administrative Services, Risk Management Division, PO Box 94974, Lincoln, NE 68509-4974. These certificates shall include the name of the company, policy numbers, effective dates, dates of expiration and amounts and types of coverage afforded. If the State is damaged by the failure of the Contractor to maintain such insurance, than the Contractor shall be responsible for all reasonable costs properly attributable thereto.

Notice of cancellation of any required insurance policy must be submitted to the State when issued and a new coverage binder shall be submitted immediately to ensure no break in coverage.

29. Contractor certifies that there does not now exist any relationship between itself and any person or entity which is or gives the appearance of a conflict of interest related to this Contract. Contractor certifies that it shall not acquire any interest, either directly or indirectly, which will conflict in any manner or degree with the performance of its services hereunder or which creates an actual or appearance of conflict of interest.

30. Contractor agrees not to refer to the Contract in commercial advertising in such a manner as to state or imply that the company or its services are endorsed or preferred by the State. News releases pertaining to the project shall not be issued without prior written approval from the State.

31. Neither party shall be liable for any costs or damages resulting from its inability to perform any of its obligations under the contract due to a natural disaster or other similar event outside the control and not the fault of the affected party ("Force Majeure Event"). A Force Majeure Event shall not constitute a breach of the Contract. The party so affected shall immediately give notice to the other party of the Force Majeure Event. Upon such notice, all obligations of the affected party under the Contract which are reasonably related to the Force Majeure Event shall be suspended, and the affected party shall do everything reasonably necessary to resume performance as soon as possible. Labor disputes with the impacted parties own employees will not be considered a Force Majeure Event and will not suspend performance requirements under the Contract.

32. The State is not required to pay taxes of any kind and assumes no such liability as a result of this Contract. Any property tax payable on the Contractor's equipment which may be installed in a State-owned facility is the responsibility of the Contractor.

33. The State may, at any time with written notice to the Contractor, make changes within the general scope of the Contract. Changes in scope shall only be conducted with the written approval of the State's project coordinator. The State retains the right to employ the services of a third party to perform any change orders.

The State may, at any time work is in progress, by written order, make alterations in the terms of work as shown in the specifications, require the performance of extra work, decrease the quantity of work, or make such other changes as the State may find necessary or desirable. The Contractor shall not claim forfeiture of contract by reasons of such changes by the State. Changes in work and the amount of compensation to be paid to the Contractor for any extra work so ordered shall be billed at hourly rates of the Contractor in effect at the time the additional work is requested, after the State and Contractor have established an agreed-upon budget for such additional work.

Corrections of any deliverable services or performance of work required pursuant to the Contract shall not be deemed a modification requiring a change order.

34. All materials and information provided by the State or acquired by the Contractor on behalf of the State shall be regarded as confidential information. All materials and information provided by the State or acquired by the Contractor on behalf of the State shall be handled in accordance with Federal and State law and ethical standards. The Contractor shall ensure the confidentiality of such materials or information. The State understands that Contractor can be compelled to provide information under legal process. In addition, Contractor may be requested by regulatory or enforcement bodies to make certain workpapers available to them pursuant to authority granted by law or regulation. The State agreed that Contractor has no legal responsibility to the State in the event we provide such documents or information.

35. Contractor will, at its discretion or upon request, deliver financial or other confidential information to the State electronically via email or other mechanism. The State recognizes and accept the risk involved, particularly in email delivery as the Internet is not necessarily a secure medium of communication as messages can be intercepted and read by those determined to do so.

The State agrees not to modify these documents for internal use or for distribution to third parties. The State understands that we may on occasion send documents marked as draft and understand that those are for the State's review purpose only and should not be distributed in any way.

36. Contractor represents and warrants that all prices for services, now or subsequently specified are as low as and no higher than prices which Contractor has charged or intends to charge customers other than the State for the same or similar products and services of the same or equivalent quantity and quality for delivery or performance during the same periods of time. If, during the term of this Contract, Contractor shall reduce any and/or all prices charged to any customers other than the State for the same or similar products or services specified herein, Contractor shall make an equal or equivalent reduction in corresponding prices for said specified products or services.

Contractor also represents and warrants that all prices set forth in this Contract and all prices in addition, which Contractor may charge under the terms of this Contract, do not and will not violate any existing federal, state or municipal law or regulations concerning price discrimination and/or price fixing. Contractor agrees to hold the State harmless from any such violation. Prices quoted shall not be subject to increase throughout the contract period unless specifically allowed by these specifications.

37. Any liability of Contractor and its personnel to the State is limited to three times the amount of fee paid for this engagement as liquidated damages.

38. The State and Contractor agree that any dispute regarding this engagement will, prior to resorting to litigation, be submitted to mediation upon written request by either party. Both parties agree to try in good faith to settle the dispute in mediation. The American Arbitration Association will administer any such mediation in accordance with its Commercial Mediation Rules. The results of the mediation proceeding shall be finding only if each of us agrees to be bound. We will share any costs of mediation proceedings equally.

39. WORK ELIGIBILITY STATUS OF EMPLOYEES

The Contractor is required and hereby agrees to use a federal immigration verification system to determine the work eligibility status of new employees physically performing services within the State of Nebraska. A federal immigration verification system means the electronic verification of the work authorization program authorized by the Illegal Immigration Reform and Immigrant Responsibility Act of 1996, 8 U.S.C. 1324a, known as the E-Verify Program, or an equivalent federal program designated by the United States Homeland Security or other federal agency authorized to verify the work eligibility status of a newly hired employee.

40. BKD is a registered limited liability partnership under Missouri law. Under applicable professional standards, partners of BKD, LLP have the same responsibilities as do partners in a general accounting and consulting partnership with respect to conformance by themselves and other professionals in BKD with their professional and ethical obligations. However, unlike the partners in a general partnership, the partners in a registered limited liability partnership do not have individual civil liability, directly or indirectly, including by way of indemnification, contribution, assessment or otherwise, for any debts, obligations or liabilities of or chargeable to the registered limited liability partnership or each other, whether arising in tort, contract or otherwise.

41. As agreed-upon by the State and BKD, John Cook will be replaced on the project team with Matthew McFadden with Zimmer Real Estate Services, LC. Mr. McFadden's bio is provided as Attachment C. BKD will subcontract with Zimmer for the services of Mr. McFadden.

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For the Contractor:
BKD, LLP BKD, LLP

Angela Morelock
Signature

ANGELA MORELOCK
Name

PARTNER
Title

1/18/2014
Date

For the State:
AS/State Building Division

Rodney Anderson
Rodney Anderson
Administrator

1/21/14
Date

Attachment A

Department of Administrative Services State Building Division

Comprehensive Audit of the Owned and Leased Property Program

Statement of Work

Statutory Authority: LB 195 Section 200, as enacted by the 103rd Nebraska Legislature, 1st Session.

> The Department of Administrative Services shall undertake a comprehensive audit of the management, administration and operation of all owned and leased real estate that is subject to the authority of the state building division of the Department of Administrative Services. The objective of such audit shall be to identify and recommend prospective measures that may be implemented to more efficiently and effectively manage, administer, and operate such real estate. Upon completion of the audit, a report of its findings and recommendations thereon shall be submitted to the Governor and Legislature on or before March 1, 2014.

Outline of Consultant Work Requirements:

1. Review state statutes that define the responsibility regarding the State Building Division's management, administration and operation of all owned and leased real estate.
2. Develop an understanding of current processes and procedures utilized by the State Building Division (SBD) Property Management Section by reviewing records and interviewing current staff members in an effort to identify and recommend prospective measures that may be implemented to more effectively and efficiently manage, administer and operate such real estate.
3. Review the use of technology in document and file management for administration and operation of all owned and leased real estate
4. Evaluate the use of current staff for the Property Management Section
5. Review and evaluate any previous studies and reports on the lease management program over the last four years.

Reporting Requirements:

1. Provide a written report that evaluates the areas listed above and make recommendations intended to improve the management, administration and operation of the SBD Property Management Section.
2. Identify measures that will improve efficiency and effectiveness.
3. Summary of Administrative Services State Building Divisions responsibility
4. Identify best practices in lease management.

Attachment B

BKD LLP
CPAs & Advisors

910 E. St. Louis Street, Suite 200
P.O. Box 1190
Springfield, MO 65801-1190
417.865.8701 Fax 417.865.0682 www.bkd.com

November 15, 2013

Mr. Dennis Summers
Property Manager
State of Nebraska Department of Administrative Services
301 Centennial Mall South
Lincoln, NE 68509

Dear Mr. Summers:

The State of Nebraska Department of Administrative Services (the Department) is mindful of those you serve—the thousands of residents who live, work and raise families in Nebraska. As you work to meet their expectations by properly managing numerous state-owned properties through the State Building Division (SBD), it is important for the Department to be confident in your approach to this function. Therefore, you want to work with a reputable CPA and advisory firm with the governmental and real estate industry expertise to help you identify areas of strength and weakness in your internal processes relating to state-owned real estate. **BKD, LLP** can help.

As the provider of choice for governmental entities and real estate companies nationwide, we believe BKD has the necessary depth of resources to help the Department effectively navigate the nuanced challenges you face. Our advisors are equipped with specialized knowledge and insight to share best practice recommendations and practical solutions aimed at helping you refine your procedures relating to state-owned real estate and improve operational efficiencies.

We believe our proposal will help you select our firm for timely, efficient and objective services delivered by experienced professionals. We will call you soon to answer questions you may have about this proposal, or you may reach us by phone or by email as provided below.

Sincerely,

Angela Morelock

Angela R. Morelock, CPA ABV, CFE, CFF, Cr.FA®
Partner
417.865.8701
amorelock@bkd.com

Robyn A Devore

Robyn A. Devore, CPA
Partner
402.392.1040
rdevore@bkd.com

Performance Review – Property Management Group

Our Understanding of Your Needs

Based on our discussions with you and our study of legislation on this matter, we understand you seek a performance review of the Property Management Group of the State Building Division (SBD). The scope of work will include an analysis of the management, administration and operations of all owned and leased real estate subject to SBD's authority. We understand the SBD currently manages approximately 3.0 million gross square feet of state-owned property, with 30 facilities and 278 buildings. The SBD also manages more than 1.2 million gross square feet of privately owned property. With this tremendous responsibility, there could be enhancements not yet identified that would help the State improve its management and operations associated with this real estate, potentially realizing cost savings.

Proposed Approach

Operational efficiency can boil down to the right person doing the right thing at the right time. This requires every activity by every person add quantifiable value. We approach our assessments with this theoretical construct as our foundation.

BKD consultants understand the intricacies of operating a successful real estate company. We can help evaluate key operating indicators and identify potential opportunities to help reduce costs and increase efficiency.

We believe we learn the most by being on site and seeing firsthand how processes work and by interviewing employees who perform routine tasks each day. Our approach will start with developing an understanding of substantive current processes associated with the operations and management of the real estate. Much of this would be accomplished through interviews with Property Management Group personnel and others as necessary. We also would review certain documentation and anticipate providing an information request list in advance of fieldwork. We also anticipate an initial planning meeting(s) to be confident we understand your concerns so our effort is focused in the appropriate areas during fieldwork and in our final report. The key areas we anticipate analyzing as part of this project include:

- Methodology in establishing and renegotiating leases
- Assessing controls over purchases, payment of invoices and collection of funds (if applicable)
- Processes and controls surrounding acquiring and disposing of real estate
- Assessment of current staffing levels
- Overall document and file management
- Efficiency in use of technology
- Responding to tenant issues

The goal is to benchmark the Property Management Group against relevant industry data and through our significant expertise working with numerous real estate clients. Because we have experience serving a wide range of real estate management companies, we can share best practices with the State of Nebraska.

Deliverables

The final deliverable will be a written report specifically listing our findings and recommendations in each of the areas listed above. Our goal is to make recommendations to help the State efficiently and effectively manage, administer and operate the real estate under its control. We will create a draft report with our findings and recommendations. You will have with an opportunity to review this information prior to finalization.

Your Investment

BKD knows our clients do not like fee surprises. Neither do we. Our goal is to be candid and timely, and we want to answer your questions about fees upfront. We determine our fees by evaluating a number of variables: the complexity of the work, the project's scope, the time we will spend and the level of professional staff needed.

Proposed Fees

State of Nebraska Department of Administrative Services	
	2014
Performance Review – Property Management Group	$44,000

In addition, you will be billed travel costs, if any, and an administrative fee of 4 percent to cover items such as copies, postage and other delivery charges, supplies, technology-related costs, such as computer processing, software licensing, research and library databases and similar expense items. Our fees may increase if our duties or responsibilities change because of new rules, regulations and accounting or auditing standards. We will consult with you should this happen.

Your BKD Engagement Team

The most critical factor in providing you high-quality service is choosing your engagement team. We take team selection seriously and have the appropriate team of advisors to meet your needs.

John R. Cook, CPA
Partner

John is Regional Industry Tax Leader of BKD National Construction & Real Estate Group's north region. He has more than 20 years of experience providing tax consulting and accounting services for clients in the affordable housing, historic preservation and market rate real estate industries. He provides consulting, tax planning and accounting services for real estate developers, syndicators and investors as well as construction, property management and real estate holding companies. John also has served as chief financial officer for a large Midwestern real estate development and syndication company.

John helps clients structure real estate transactions to enhance profitability. He consults with real estate developers, investors and business property operators to structure real estate tax credit transactions and tax-deferred exchanges. John works with clients involved in developing affordable housing to use federal and state low income housing credits, historic rehabilitation credits and other federal and state funding sources. He also works closely with developers, syndicators and investors in formulating tax saving strategies that involve federal and state income tax credits.

He speaks at national and state conferences on topics involving the historic rehabilitation tax credit and low income housing tax credit (LIHTC). He also authors articles on real estate topics. John was a speaker at the National Council of State Housing Agencies' Housing Credit Conference and Market Place in 2005 and 2006 and at the 2007 and 2010 Missouri Governor's Conference on Economic Development. John also was a speaker at the 2010 Missouri Statewide Preservation Conference and has been a frequent speaker at this conference in prior years. John was extensively involved with preparation and presentation of the Cost/Benefit Analysis of the Missouri Low-Income Housing Tax Credit Program, a joint project involving BKD, LLP and Missouri State University, for the Missouri Housing Development Commission.

John is a member of the American Institute of CPAs and Missouri Society of Certified Public Accountants.

He is a 1987 *summa cum laude* graduate of Missouri State University, Springfield, with a B.S. degree in accounting, and a 1989 graduate with an M.A. degree in accounting.

Angela R. Morelock, CPA, ABV, CFE, CFF, Cr.FA®
Partner

Angela routinely provides consulting services for a variety of clients in the retail, banking, wholesale, government, manufacturing, real estate, health care and other industries. Her experience includes providing assistance with the development of streamlined and improved accounting processes and assisting in matters of internal control and fraud prevention. In her role as leader of BKD's firmwide Forensics and Valuation Services practice, she serves as an expert witness in issues involving accounting, valuation and other financial matters.

She has more than 20 years of experience and is routinely involved in consulting engagements designed to help improve operational efficiencies, develop procedures and improve control. During her career, Angela has assisted with numerous internal control reviews, provided Sarbanes Oxley internal control consulting and helped develop procedure manuals.

Angela is a Certified Fraud Examiner (CFE) and Certified Forensic Accountant® (Cr.FA®), as well as a CPA who is Certified in Financial Forensics (CFF). She participates in more than 60 hours of continuing education each year and has attended numerous valuation, litigation services, damages and fraud courses offered by the American Institute of CPAs (AICPA) and Association of Certified Fraud Examiners (ACFE). Angela has an extensive background in business valuation, and in 1998, she earned the AICPA's Accredited in Business Valuation (ABV) designation, which is granted exclusively to CPAs who demonstrate business valuation expertise and experience.

An avid public speaker, she is a frequent lecturer at national conferences and other business group meetings. Her educational sessions on white-collar crime receive high audience ratings.
In 2008, Angela was chosen by **Midwest CEO Magazine** as one of the area's "Most Influential Women."
In 2009, Angela was chosen by the **Springfield Business Journal** as one of the area's "20 Most Influential Women."

Robyn A. Devore, CPA
Partner

Robyn is a member of BKD National Governmental Group and is the chair of the Nebraska offices' not-for-profit team. She has more than 19 years of experience providing audit and consulting services for not-for-profit and governmental organizations, colleges, universities, charitable organizations and real estate companies.

She is a presenter at the annual BKD National Governmental Group conference and regularly attends more than 50 hours of continuing professional education in not-for-profit, state and local governmental accounting and auditing. She has attended and instructed training specific to student financial aid and OMB Circular A-133.

Robyn is a member of the American Institute of CPAs, Nebraska Society of Certified Public Accountants and Missouri Society of Certified Public Accountants. She also is a member of the BKD Foundation Committee, which provides financial support to charitable organizations throughout the community and Leadership Lincoln Class XXI. In addition, Robyn is a board member of Together, Inc. and Completely Kids.

She is a 1993 *summa cum laude* graduate of Drury University, Springfield, Missouri, with a B.A. degree in accounting and business administration.

Why Choose BKD

BKD Delivers Value

It is important to monitor expenditures and receive exceptional value for your investments. However, informed consumers understand value is about more than just price. Value from a professional CPA and advisory firm is about the quality of the work and the merit of the advice. Expect BKD's work to be accurate and insightful. We stand behind it.

As evidenced by our inclusion in **INSIDE Public Accounting**'s 2011 and 2012 Best of the Best Firms lists, we also offer long-term consistency, exceptional performance and a national network of support and resources. BKD is large enough to help the Department address a variety of financial issues. At the same time, we pride ourselves on hard work and low overhead, which keep our fees competitive. With our reputation, size, service and experience, you can consider us a good value.

INSIDE Public Accounting 2012 BEST OF THE BEST FIRMS

Government Expertise

BKD National Governmental Group works with more than 400 government clients nationwide. We can leverage best practices learned from working with other government entities to help the Department identify areas that may require attention, increase operational efficiencies and experience guidance.

In addition, our commitment to governmental entities includes being a leader in national and state associations, as well as in the development of governmental accounting and auditing standards. Our experience also has enabled us to establish connections with:

- Governmental Accounting Standards Board
- Office of Management and Budget
- U.S. Government Accountability Office
- AICPA Governmental Audit Quality Center, as a member

Governmental Audit Quality Center AICPA

Our industry experience and our involvement with national and state trade associations means we have the expertise needed to help the Department with fiscal accountability, resource management, performance measurement, budgeting and debt administration.

National Real Estate Experience

Buying, selling, refinancing and trading are among the daily activities that contribute to the real estate market's unpredictability. Transactions like these require complex financial analyses, flawless timing and extensive knowledge about the rules and regulations governing them. BKD National Construction & Real Estate Group understands.

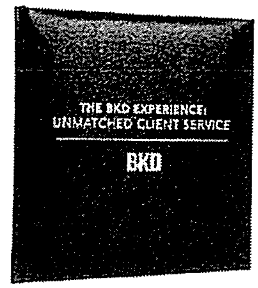
We work with more than 1,800 real estate companies nationwide, including funds, master limited partnerships, real estate investments trusts and investor groups owning a wide range of commercial, industrial and residential properties. We also work with joint ventures and insurance and property management companies with large real estate portfolios. Our experienced professionals can collaboratively help guide the Department through the consulting process. BKD has the expertise and experience you need to help you enhance SBD's performance.

Our advisors routinely attend conferences focused on industry issues and trends. They receive continuing professional education (CPE) to stay informed of industry regulatory updates and other general accounting issues, averaging approximately 50 hours of formal training annually. BKD advisors also actively serve as participants, exhibitors, speakers and sponsors in real estate associations on the local and national level, including National Council of State Housing Agencies, National Association of Industrial & Office Properties, Urban Land Institute and Certified Commercial Investor Member Institute.

Thought Leadership

BKD advisors are serious about reinforcing and strengthening their positions as thought leaders in the industries they serve. To keep you informed about emerging issues in your industry, as well as changes in regulations and accounting and tax methods, we provide **BKD Thoughtware** webinars, seminars and articles. Many of these are eligible for CPE credit. We encourage you to discover the wide array of resources available to our clients on our website, **bkd.com**.

Unmatched Client Service



You want trusted advisors who will deliver exceptional client service, focus on your needs and take the time to address your unique challenges. BKD understands. We take our commitment so seriously we penned five standards of unmatched client service and supporting guidelines in **The BKD Experience: Unmatched Client Service**, a book that sets the firm's expectations for serving clients. Those five standards are Integrity First, True Expertise, Professional Demeanor, Responsive Reliability and Principled Innovation.

Matthew D. McFadden

Senior Vice President-Principal, Director of Corporate Services

Matthew McFadden has 15 years of corporate management and global real estate experience working for several Fortune 500 companies. He brings experience in dynamic strategic planning, portfolio and project management and transactional drafting and negotiation. As a Senior Vice President-Principal, Director of Corporate Services, and member of Zimmer's executive management team, Matt works to meet his clients' unique commercial real estate needs and develops strategic plans allowing them to focus on their core business.

Contact
mmcfadden@zimmercos.com
816.268.4239

Education
MBA — W.P. Cary School of Business, Arizona State University

JD — Washburn University School of Law

BS/Political Science — James Madison University

Registrations
Real Estate Salesperson — Kansas & Missouri

Professional/Civic Involvement
Civic Council of Kansas City: Kansas City Tomorrow — Class of 2011-2012

Metropolitan Community College Foundation

3&2 Baseball of Kansas City

Kansas City, MO Business Leadership Council

Awards
Six Sigma Plus: Value Award,

Site Vision Award

Top Performers Award, Honeywell International

Matt has a particular talent for understanding clients' diverse real estate portfolios at a macro level and then identifying implementable opportunities coupled with clear strategies for execution.

Recent client initiatives include:

- National portfolio restructuring for a retail client, resulting in real estate cost-savings of more than $4,000,000.
- Site selection and transaction management for a high-growth international creative media arts client in New York City, Atlanta, Miami, Chicago, and Los Angeles.
- Transaction and strategic planning for an international Fortune 100 client with office, manufacturing, distribution, and warehouse needs across North and South America.
- Transaction management for a Fortune 250 communications and technology client with assets across North America.

The Corporate Services' real estate practice at Zimmer also includes services such as: real estate appraisal, tax appeal, portfolio administration, feasibility studies, sealed bid auctions, economic incentive evaluation, public incentive identification and negotiation, real estate finance evaluation and coordination, move management selection and coordination, office programming, layout and design coordination, and operating expense/lease audit.

Matt is an active member of his community, serving as: a member of the Kansas City, Missouri Business Leadership Council; a board member of the Metropolitan Community College Foundation; a board member of 3 & 2 Baseball of Kansas City; and a baseball coach for two youth teams. He recently completed the Kansas City Tomorrow leadership program through the Civic Council of Kansas City.

Matt lives in the Brookside community of Kansas City, MO with his wife Elizabeth and their three very active boys.

Before joining Zimmer, Matt managed a 15 million square-foot global real estate portfolio for Honeywell International Inc. He began his career with Sprint, managing a national retail and office portfolio.

Exhibit 2

March 14, 2013 Appropriations Committee Testimony of Bennett Ginsberg

accepted. And we're doing that purposefully so that we can make sure we can resolve some of these issues. So I would be happy to keep the committee and the senators informed on what we're doing and where we're moving with this. [AGENCY 65]

SENATOR MELLO: Much appreciated. Thank you, Director. [AGENCY 65]

BRENDA DECKER: You bet. You bet. [AGENCY 65]

SENATOR MELLO: Are there any other testifiers here today on behalf of Agency 65? Good afternoon. [AGENCY 65]

BENNETT GINSBERG: Good afternoon, Senator...Chairman Mello and members of the Appropriations Committee. My name is Bennett Ginsberg, B-e-n-n-e-t-t G-i-n-s-b-e-r-g. I am the president of CBRE/MEGA. We propose that this committee request that DAS support a comprehensive audit of all of the state's owned and leased real estate holdings. We anticipate this cost not to exceed $250,000. Typically the three key largest expenses...expense items in the government are people, programs, and real estate, in that order. The CBRE, a public institution and education solutions group, PIES, specialized and dedicates 100 percent of its time to helping state and local governments better control and manage their real estate. We accomplish this by bringing an interdisciplinary group that performs an in-depth audit of the government's entire portfolio. Ultimately, the audit identifies the inefficiencies in the portfolio, thereby allowing a systematic approach to reducing costs and identifying and creating better efficiencies to allowing the state's real estate holdings, both owned and leased. CBRE is the largest real estate company in the world--425 offices with revenues exceeding $6 billion. CBRE/MEGA, our company, is an affiliate based in Omaha. We have 120 team members and we manage over 6 million square feet of commercial property. Today CBRE manages over 3.2 billion square feet of real estate around the globe. Our expertise brings best practices from our many clients to the state level. PIES, the public institution group, applies innovative ideas to more effectively manage a state's real estate holdings. Individual states that have procured CBRE's PIES program with multiyear contracts are Tennessee, Maryland, Florida, South Carolina, Washington, and most recently the state of New York. An example of the true success story of the state of Florida, the challenge by the governor with the real estate group was to identify $100 million in real estate cost savings. The state published an RFP to companies like ours, that we ultimately won, to identify where the state had excess capacity, leases that were "disapportionate" to the market, and buildings that were overmanaged. And we looked at energy costs and consumption. We not only reached the $100 million goal, we exceeded it. The case study that you received explains the Florida success story in more detail. And that is all I have. If there's any information that we've done specifically for the state, I have my two colleagues behind me that can answer any questions. [AGENCY 65]

SENATOR MELLO: Thank you, Mr. Ginsberg, for your testimony. Are there any questions from the committee? Senator Nelson. [AGENCY 65]

SENATOR NELSON: I understand you're proposing that we fund a study. [AGENCY 65]

BENNETT GINSBERG: Correct. [AGENCY 65]

SENATOR NELSON: And would your firm then be able to do that study or go somewhere else, say? [AGENCY 65]

BENNETT GINSBERG: We would be able to...what we're proposing is that the $250,000 be appropriated to put together an RFP that would go out to companies like ours for complete transparency. Then we would answer the RFP on behalf of DAS to provide an audit of all of the state's owned properties and leased properties. [AGENCY 65]

SENATOR NELSON: And the audit then would come back to the Appropriations

Committee... [AGENCY 65]

BENNETT GINSBERG: Correct. [AGENCY 65]

SENATOR NELSON: ...or to DAS or... [AGENCY 65]

BENNETT GINSBERG: To both. I'm not sure exactly how it would work internally here, but the audit would identify the...what we see the inefficiencies potentially of how real estate is being procured within the state. I was listening to Bob speak--I can't remember his last name, sorry--but talking about the energy in this building and the $60 million investment that would be made. And there certainly is a return on that investment that can be quantified and should be able to be quantified fairly easily on what the payback would be on putting a new, more efficient system in this building or any other buildings that the state owns. [AGENCY 65]

SENATOR NELSON: For the state of Maryland here, and it's hard to digest all this, you know, so quickly, but are you managing their state properties now or did you do the survey and the audit? []

BENNETT GINSBERG: We did the audit. We handle...a lot of what we would do is a lot of the properties are leased. And in the environment that we've had the last few years, it's been an awfully good time for tenants, such as the state, to go in and renegotiate leases to lower their costs. [AGENCY 65]

SENATOR NELSON: Uh-huh. [AGENCY 65]

BENNETT GINSBERG: And so in addition to when you say managed, we do provide facility management so actually managing the physical plant, so the properties. That is part of the business that we do also. [AGENCY 65]

SENATOR NELSON: And handle the leases and all that sort of thing? [AGENCY 65]

BENNETT GINSBERG: Correct. [AGENCY 65]

SENATOR NELSON: All right. Thank you very much. [AGENCY 65]

SENATOR MELLO: Senator Larson. [AGENCY 65]

SENATOR LARSON: Real quick, obviously, the state would have to go through the RFP process and you may or may not get the bid. How much were the bids or the audits for Maryland and Florida? How much money did they spend? [AGENCY 65]

BENNETT GINSBERG: $500,000. [AGENCY 65]

SENATOR LARSON: $500,000. [AGENCY 65]

BENNETT GINSBERG: Correct. [AGENCY 65]

SENATOR LARSON: ...is what they paid your company to do the entire audit. [AGENCY 65]

BENNETT GINSBERG: Correct. [AGENCY 65]

SENATOR LARSON: Thank you. [AGENCY 65]

SENATOR MELLO: I have a quick question, Bennett, in regards to one of the handouts here that uses savings comparison here. You list Game and Parks Lincoln location, Health and Human Services Norfolk location, Department of Labor North Platte, could you walk us through this handout here? Is this... [AGENCY 65]

BENNETT GINSBERG: Can I have Jamie or Mike walk through that? They were more involved with the detail of that. Is that okay? [AGENCY 65]

SENATOR MELLO: That's fine. [AGENCY 65]

BENNETT GINSBERG: Great. [AGENCY 65]

JAMI HEIDEMANN: Do we need to approach? Over the past...do I need to identify myself? [AGENCY 65]

SENATOR MELLO: Could you...be sure to...whoever, just be sure to introduce yourself, spell your name for the record. [AGENCY 65]

JAMI HEIDEMANN: Sure. I'm Jami Heidemann, J-a-m-i H-e-i-d-e-m-a-n-n. Over the past couple of years, we've been engaged with DAS on a limited basis in regards to their leased assets. This document that you're referring to is in reference to the four transactions that we completed for them. On the left-hand side you'll see the track that the leases were on for what rent would have projected to be. The right-hand side is how we negotiated the lease. So we just subtracted the right-hand column and the left-hand column to create the savings. [AGENCY 65]

MICHAEL KAUFMAN: If I could elaborate a little further. My name is Michael Kaufman, M-i-c-h-a-e-l K-a-u-f-m-a-n. Those savings were generated simply by renegotiating leases, just simple transactional management. [AGENCY 65]

SENATOR MELLO: So I guess my initial question is, is this something that was the department...is this something the department just was not doing or is this something that can be done with all property that currently is being leased by the state? I mean I see the three properties here: North Platte, Lincoln and North Platte and Norfolk, which it looks like you appear to save the state about $40,000, give or take, in renegotiation of leases. Is this something that can be done with all properties? Would this be part of an analysis that I think Senator Larson's question regards to an RFP, would that be part of what you would do comprehensively? [AGENCY 65]

JAMI HEIDEMANN: This would be one item. Correct. This would be one item within that. The audit would be much more comprehensive. I mean it would look at the owned assets. It would look at the facilities management, energy. I mean it would look at everything from the HVAC to the toilet paper. [AGENCY 65]

BENNETT GINSBERG: The one thing--to answer the question--there is a number of leases I believe that DAS provided. There's around 630,000 square feet that the government/state leases. And those leases stagger throughout the years. You cannot just go in and start trying to renegotiate when a lease has got ten years remaining on it. But you certainly can do it with a good amount of time preparation to know that in 2013 or 2014 that leases are coming due and that the...we feel that with a third party representing the state that knows the market, that understands how to negotiate with landlords, that understand what rents are and what they should be that there are significant savings. What we were seeing that it was somewhat of a rubber stamp. And we just don't see...I think there just needs a little bit more thought process put into it. [AGENCY 65]

SENATOR MELLO: Would you be...I guess the question would you be replacing DAS then? I mean would you be... [AGENCY 65]

BENNETT GINSBERG: No. We would be augmenting. We would be supporting them and adding knowledge, if you will. No, we would not be replacing them. We would just be supporting. [AGENCY 65]

SENATOR MELLO: Okay. Any further questions from the committee? Senator Nelson. [AGENCY 65]

SENATOR NELSON: Do you work on a percentage of savings then or on an hourly daily rate or? [AGENCY 65]

BENNETT GINSBERG: That's it. Yeah. [AGENCY 65]

SENATOR NELSON: I mean when you're going out to Broken Bow, for instance. [AGENCY 65]

BENNETT GINSBERG: Yes (inaudible) good question. We typically get paid through the landlord of the building. So if the State Patrol leases a property, the landlord, which is very typical in our business, pays our commission, our fee. We actually, though, represent the state. And I think it was stated the State Patrol that we were doing it on that occasion. [AGENCY 65]

SENATOR NELSON: Well, you're reducing the amount that the landlord gets. [AGENCY 65]

BENNETT GINSBERG: Correct. [AGENCY 65]

SENATOR NELSON: And yet he's going to pay you for that? [AGENCY 65]

BENNETT GINSBERG: Correct because...or he potentially would lose the tenant. [AGENCY 65]

SENATOR NELSON: Because what? [AGENCY 65]

BENNETT GINSBERG: He would potentially lose the State Patrol as a tenant. [AGENCY 65]

SENATOR NELSON: Interesting. Thank you. [AGENCY 65]

BENNETT GINSBERG: It's a laugh line. [AGENCY 65]

SENATOR MELLO: Any further questions from the committee? Seeing none, thank you for coming in. [AGENCY 65]

BENNETT GINSBERG: Thank you. [AGENCY 65]

SENATOR MELLO: Are there any further testifiers here today on behalf of Agency 65, the Nebraska Department of Administrative Services? Gary, Dick, either one of you? Seeing none, that will close today's hearing on Agency 65 and we'll end the Appropriations Committee hearing for the day. We will stay after and go into a brief Executive Session. [AGENCY 65]

Exhibit 3

LB 195

REVOLVING FUND	468,600	473,034
PROGRAM TOTAL	468,600	473,034
SALARY LIMIT	176,866	180,716

Sec. 200. AGENCY NO. 65 — DEPARTMENT OF ADMINISTRATIVE SERVICES

Program No. 560 - State Building Division

	FY2013-14	FY2014-15
GENERAL FUND	237,595	238,444
CASH FUND	229,425	229,425
REVOLVING FUND	36,201,821	36,202,921
PROGRAM TOTAL	36,668,841	36,670,790
SALARY LIMIT	3,340,769	3,409,763

The unexpended General Fund appropriation balance existing on June 30, 2013, is hereby reappropriated.

The Department of Administrative Services shall undertake a comprehensive audit of the management, administration, and operation of all owned and leased real estate that is subject to the authority of the state building division of the Department of Administrative Services. The objective of such audit shall be to identify and recommend prospective measures that may be implemented to more efficiently and effectively manage, administer, and operate such real estate. Upon completion of the audit, a report of its findings and recommendations thereon shall be submitted to the Governor and Legislature on or before March 1, 2014. There is included in the appropriation to this program for FY2013-14 not less than $75,000 Revolving Funds to accommodate expenses associated with such audit. The report required to be submitted to the Legislature by this section shall be submitted electronically.

Charges assessed by the Department of Administrative Services pursuant to provisions of subdivision (4)(b) of section 81-1108.17 for the Ferguson House shall not annually exceed an amount calculated as follows:

(1) Multiply the insured replacement value of the Ferguson House property by two one-hundredths;

(2) Divide the amount of tenant-occupied gross square feet of Ferguson House space by the Ferguson House gross square feet of total space; and

(3) Multiply the amount computed in subdivision (1) of this section by the amount computed in subdivision (2) of this section.

Sec. 201. AGENCY NO. 65 — DEPARTMENT OF ADMINISTRATIVE SERVICES

Program No. 567 - Accounting Division

	FY2013-14	FY2014-15
REVOLVING FUND	5,945,469	5,191,876
PROGRAM TOTAL	5,945,469	5,191,876
SALARY LIMIT	1,794,920	1,835,296

Sec. 202. AGENCY NO. 65 — DEPARTMENT OF ADMINISTRATIVE SERVICES

Exhibit 4

Email from Senator Mello Regarding BKD Contract

Morelock, Angela

From: Oligmueller, Gerry <Gerry.Oligmueller@nebraska.gov>
Sent: Friday, February 14, 2014 1:39 PM
To: Morelock, Angela
Subject: FW: BDK Contract Questions
Attachments: Commonwealth of Virginia.doc; State of FL.doc; State of Maryland.pdf; State of Michigan.doc; State of NJ.doc; State of NY.doc

From: Heath Mello [mailto:hmello@leg.ne.gov]
Sent: Wednesday, February 12, 2014 4:37 PM
To: Oligmueller, Gerry
Subject: BDK Contract Questions

Gerry,

Based on my reading of the BDK contract here are few questions that I would have for BDK to answer:

1.) What background does BDK have on best real estate practices for property management, project management, public private partnerships and lease administration?

2.) What background does BDK have on creating an effective government public-private real estate partnerships?

3.) How does BDK stay attuned to real estate market conditions and what is their background in negotiating rent-lease contracts on behalf of governmental entities?

As I mentioned earlier, my biggest concern is that engaging an accounting firm like

BDK
will result in an audit
 report
that
will be accounting
-
based and miss the
main
objective of understanding
potential public-private partnership
real estate
practices
. I've attached a few of the case studies that we received last year from a firm that does this kind of work who DAS had engaged before.

Additionally,
will there be
an
y policy recommendations and/or
implementation strategy
on best practices included in the final report from BDK?

Thank you again for considering these questions as part of the audit, Gerry.

Yours very truly,

Senator Heath Mello
Nebraska Legislature
District 5 - South Omaha

Contact me at:
(402) 471-2710 - State Capitol
(402) 612-9569 - Residence
www.senatorheathmello.com

Commonwealth of Virginia

DEPARTMENT OF GENERAL SERVICES

SERVICES

Portfolio Planning/Optimization

Transaction Management

CB Richard Ellis was initially selected to provide consulting services to improve the Commonwealth of Virginia's system for managing its diverse portfolio of real property assets. CBRE has since been retained to provide organizational planning and portfolio optimization services, including transaction management. The Commonwealth's portfolio consists of approximately 1,200 sites comprising 520,000 acres of land and more than 11,000 owned buildings. In addition, the Commonwealth has approximately 1,350 leases. Management of these assets was largely decentralized, with over 100 departments, agencies and institutions responsible for day-to-day control and administration. The Department of General Services (DGS) and the Bureau of Real Property Management (BRPM) within DGS needed to provide direction and oversight to manage the conduct of real estate transactions performed by these various departments, agencies and institutions.

CBRE's solution was far reaching, impacting the location and configuration of Commonwealth real estate, the way in which the Commonwealth was organized to manage its real estate, the Commonwealth's real estate management information management systems, and its approach to facilities management. CBRE developed a portfolio plan focused on consolidating and co-locating agencies into owned and long-term leased facilities. We evaluated space allocation practices and developed recommendations for space standards and design that reduced space requirements and increased worker efficiency. Rather than continue a program where every agency was responsible for its real estate and facilities, CBRE recommended consolidating real estate authority under a new organization, the Department of Real Estate Services within DGS. This organization now has the responsibility for providing and managing space to all state agencies enabling the Commonwealth to leverage its buying power as both a landlord and tenant.

The results after three plus years of implementation of this Strategic Plan include:

- Over thirty million dollars of cost savings/avoidance
- Master leases consummated in Norfolk, Virginia Beach, Richmond, Fairfax and Abingdon
- Major colocation projects in Charlottesville and Richmond
- Mini-colocations in Newport News and Williamsburg
- Colocations are in the negotiation phase in Manassas, Staunton, Wytheville and Danville. All of these will be complete in 2008.
- Significant progress has been made in conformance to the new space standards. Close scrutiny is completed by the DRES staff on the OSQ to adhere to the new standards.

The estimates derived from CBRE's financial models indicated that savings could be achieved through proactive management techniques and revised standards and policies. CBRE identified initial savings from revising space standards, collocating agencies and sharing common facilities that could approach $60 million over a ten-year planning horizon. Furthermore, now that the recommended real estate management structure is in place, a more integrated management of the interface between owned and leased space utilization and facilities management operations will help to identify additional opportunities for significant cost reductions.

CASE STUDY


TALLAHASSEE DEMOCRAT
Local&State
State expects huge saving

Services

Strategic Planning, Real Estate Advisory, Tenant Representation, Lease Administration, Space Management

Client Contact

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Executive Vice President
Public Institutions and Education Solutions
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STATE OF FLORIDA

CHALLENGE

The State engaged principals of CBRE (while at previous employer), under a multi-year contract, during which they accomplished the following:

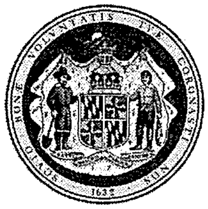
- Assessed the effectiveness of properties within the State's existing leased and owned portfolio.
- Provided tenant representation services, including negotiating and executing lease terms for all leases.
- Completed a review of the State's existing lease form to identify cumbersome or out of date lease provisions.
- Provided space management services.
- Decreased energy consumption & improved energy efficiency in leased space.

RESULTS

Since the contract was initiated in 2003, the CBRE principals achieved:

- Completed comprehensive strategic plans for Tallahassee-area facilities (owned and leased).
- Completed strategic plans for the 10 largest State agencies.
- Worked successfully with the Department of Management Services to develop a new real estate procurement process for leased assets.
- Installed an online, 24/7 project/transaction tracking software application.
- Saved the State in excess of $82 Million through the implementation of transactions.

CASE STUDY



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m

SERVICE LINES

- Services : Multi-year
- Strategic Planning
- Tenant Representation

STATE OF MARYLAND

Challenge

The State of Maryland is facing a significant statewide revenue shortfall as a result of the general economic conditions in the Mid-Atlantic. During the second and third quarters of 2009, the state made the decision to partner with a private sector real estate firm to accelerate cost reductions and operations improvements in their real estate portfolio.

Results

The CBRE Baltimore/Washington team was selected in a competitive procurement to be the state's real estate services provider for the next three years. CBRE commenced the contract in September and is moving forward with the following initiatives:

- Renegotiating 500,000+ SF of agency leases
- Developing a strategic plan for all leased assets within the portfolio
- Streamlining the new/renewal lease procurement process
- Installing a web-based data management and transaction tracking system

The CBRE team is committed to producing $5M+ in annual recurring savings by June 30, 2010.

CBRE
CB RICHARD ELLIS

CASE STUDY

Services

Strategic Planning, Real Estate Advisory, Tenant Representation, Lease Administration, Space Management

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STATE OF MICHIGAN

CHALLENGE

The State engaged Mr. McShea to provide real estate services for its 9 million sf portfolio of leased space, including 693 facilities. The State's goal was to achieve a 10% cost savings (or $12.6 Million) in the first year of the contract. To achieve this goal, Mr. McShea renegotiated existing leases and consolidated where possible. In addition, efficiencies in space utilization were created.

SOLUTION

Mr. McShea developed a portfolio-wide Strategic Plan, as well as a plan for each individual agency within the State. In the first 12 months of contract implementation, the below was completed:

- Interviewed 19 agencies.
- Established on-site personnel.
- Completed & delivered the Strategic Plan.
- Eliminated 88 leased properties.
- Realized over $13 Million in cost savings associated with existing leases.
- Assessed a variety of public/private partnerships, including the disposition of surplus assets.
- Installed an online, 24/7 project/transaction tracking software application.
- Conducted space planning workshops with all 19 agencies.

RESULTS

The State won the 2006 Innovations Award from the National Association of State Facility Administrators for its public/private real estate services contract.

CBRE
CB RICHARD ELLIS

CASE STUDY

State of New Jersey

FINANCIAL ANALYSES WERE PREPARED TO DETERMINE THE LOWEST COST STRATEGY ON A COUNTY-BY-COUNTY BASIS. IMPLEMENTATION PLANS IDENTIFIED MORE THAN $40 MILLION IN SAVINGS.

The State of New Jersey retained CBRE Consulting to prepare a comprehensive master plan for all Executive Branch office space. The focus of the assignment was to maximize efficiency and cost savings in a statewide portfolio that encompassed 13 state agencies employing more than 35,000 employees, in over 600 separate locations that totaled over 8 million square feet. The State's space inventory was evaluated to determine lease expirations, and the physical condition of occupied facilities. Space standards, lease language and construction specifications were tested to identify potential areas for improving quality while reducing costs.

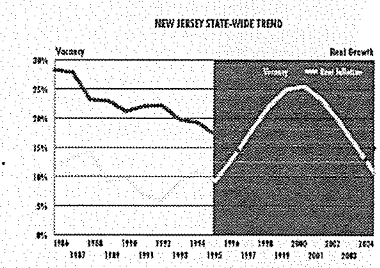
SERVICES

Organizational Planning

Portfolio Optimization

Current space requirements were evaluated for each state agency and projected twenty years into the future. Forecasts were based upon expected state population growth, employment and state budget trends. Space surplus and shortages were estimated for each agency on a regional, county and site-specific basis.

Real estate markets in every county were evaluated to forecast long range real estate trends including anticipated changes in occupancy rates, vacancy rates and rental rates. These forecasts were prepared using econometric modeling techniques and were key to the formulation of immediate, short term and long range real estate strategies.

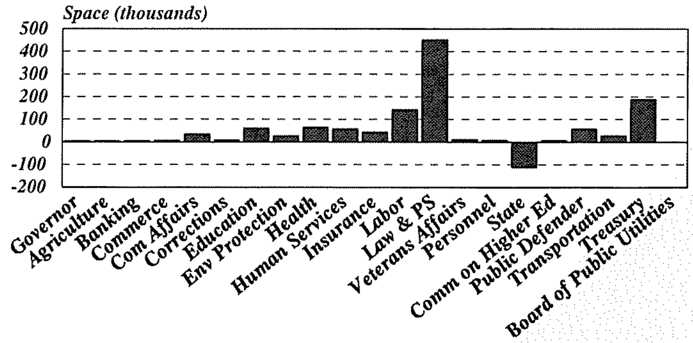


The study concluded with the development of facilities master plans for each county guided by headquarters, regional and local service center concepts. These plans focused on consolidating agencies into significantly fewer locations. Various alternatives were explored for each county including long-term leasing, and build-to-suit scenarios. Financial analyses were prepared to determine the lowest cost strategy on a county-by-county basis. The long-range strategy recommended a plan that balanced cost savings with efficient service delivery. Immediate and short-term action plans were developed to implement the master plan. Implementation plans identified more than $40 million in savings.

COMPARISON OF SPACE ASSIGNED TO REQUIRED BY AGENCY

CB RICHARD ELLIS

CASE STUDY



CB RICHARD ELLIS

CASE STUDY

STATE OF NEW YORK

Services
Strategic Planning, Tenant Representation, DCCS

CHALLENGE
- The State engaged CBRE employees to provide real estate services to its 4.4 million sf portfolio.
- We performed a comprehensive review of 150 leased locations, representing 42 agencies, and identified potential transactions for cost savings, as well as underperforming assets.
- We also completed an evaluation of the State's real estate procurement processes, procedures, rules and regulations.

Client Contact

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RESULTS
Currently, we are implementing several of our strategic and tactical recommendations for process and portfolio improvements. We expect to achieve significant cost savings of 15% to 20% of the approximately $100 Million in lease costs per year.

CBRE
CB RICHARD ELLIS

Exhibit 5

The PFM Group
Real Estate Property Management Privatization Study

State of Nebraska
Department of Administrative Services

Real Estate Property Management Privatization Study

State Building Division

June 29, 2012

The PFM Group

801 Grand Avenue, Suite 3300
Des Moines, IA 50309
515-243-2600
515-243-6994 fax

Two Logan Square, Suite 1600
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Philadelphia, PA 19103
215-567-6100
215-567-4180 fax

Table of Contents

Introduction and Project Approach

Introduction and Project Approach

Introduction

In 2011, Legislative Bill (LB) 616 and Legislative Resolution (LR) 268 provided the Nebraska Department of Administrative Services (DAS) State Building Division (SBD) with the opportunity to conduct an interim study to identify privatization opportunities for the real estate property management function. This would include analysis to determine potential benefits or cost savings that could be achieved by doing things better, smarter, faster and cheaper. According to LR268, the Legislature was most interested in any analysis that would identify whether or not the State is in fact the best provider of property management services, or if there may be a more efficient way that could save the State money. Specifically, this analysis would also need to determine whether or not the State can sell property, potentially change agreements on leases or enter into new leases.

In 2008, PFM was retained by the DAS to do an organizational assessment of the SBD, which included an examination of the property management function. Subsequently, PFM assisted the SBD with creating written policies and procedures for this operation, as well as advised them on Key Performance Indicators (KPIs). Based on this background knowledge of operations, the Division retained PFM to assist with this independent study.

Project Overview

To complete this analysis, PFM structured a project approach that included the following:

- Assist with a review of benchmarking, processes and best practices of state property management systems in Nebraska and in other states;
- Identify peer organizations for benchmarking and analysis;
- Research other state experience with privatization within property management and related areas;
- Identify best practices and the opportunity for application in Nebraska;
- Provide a quantitative analysis, when possible, to identify potential savings, efficiencies and/or new revenue opportunities; and
- Submit a final written report to the Division and DAS.

It is helpful to review the PFM project approach and this report in the context of the interim study requested in LR 268, which is to examine the potential for privatization of the State of Nebraska's property management system. The study is to include, but not be limited to:

1. An examination of the current property management system of the Department of Administrative Services; this information can be found in the Current Operations Chapter.
2. A review of property management systems in other states, including those systems which have been partially or fully privatized; this review can be found in the Benchmarking and Best Practices Chapter.
3. An examination of practices currently in place, if any, within the Department of Administrative Services to identify poorly performing or underutilized real property and

leases that are above market value; this information can be found in the Benchmarking and Best Practices Chapter.

4. A review of potential cost savings that could be achieved by improving efficiency and reducing operating costs in the State's property management system; this analysis is primarily found in the Findings and Recommendations Chapter.
5. A review of the potential to raise revenue through the disposition of excess State-owned real property; this analysis is primarily located in the Findings and Recommendations Chapter.
6. An examination of the potential to partner with the private sector to improve management of State-owned real property; this analysis is primarily located in the Findings and Recommendations and Implementation Approaches Chapters.

Current Operations

Current Operations

Overview

The State Building Division (SBD) currently manages approximately 3.0 million gross square feet of State-owned property, consisting of 30 facilities and 278 buildings, along with 1.2 million gross square feet of privately owned property. The Property Management group of the SBD negotiates over 200 leases for State agencies with an average cost per square foot of $11.88. Approximately $13 million is spent annually on commercial leases. The services SBD provides include, but are not limited, to the following:

- Serve as State leasing administrator or agent for all facilities to be leased for use by the State and for all State-owned facilities to be rented to State agencies or other parties;
- Manage SBD procurement of leased space including negotiations, site visits and recommended award of contract;
- Ensure all State-owned, State-occupied and vacant facilities are maintained or utilized to their maximum capacity or to dispose of facilities through lease, sale or demolition;
- Report annually to the Appropriations Committee of the Legislature and the Committee on Building Maintenance regarding the amount of property leased by the State and availability of State-owned property for the needs of State agencies;
- Address tenant improvement requests in State or commercial owned facilities;
- Maintain leasing records and databases.

Staffing

The Property Management Group (PMG) is budgeted for three Full-Time Employees (FTEs), but as of January 2012 only two of the positions are filled. The primary responsibilities for the three budgeted positions are described below:

- **State Property Manager**: The State Property Manager (SPM) reports to the Administrator of the SBD and is responsible for the management and performance of the Property Management group. The primary function of the SPM is to oversee all State leasing matters. This position is also responsible for maintaining files for all State-owned property.
- **Leasing Coordinator**: The Leasing Coordinator reports to the SPM and is responsible for handling all State commercial leases. The Leasing Coordinator works closely with the SPM to handle all issues related to commercial leasing. This includes tenant issues, lease renewals and record keeping.
- **Staff Assistant**: The Staff Assistant reports to the SPM and provides support by maintaining building files and handling the documentation for leases of State-owned properties. This position is currently vacant, and many of the position's duties and responsibilities are being handled by the SPM.

In addition to the duties outlined above, the PMG is also responsible for the following:

- Staffing the Vacant Building and Excess Land (VBEL) Committee: This includes providing support and preparing for the VBEL quarterly meetings, easement research and other necessary support as needed to adequately staff and support the VBEL Committee.

- Maintaining the State-wide Inventory of Assets: The PMG is responsible for housing and maintaining the State-wide inventory of assets through the JD Edwards tracking module. This includes working with all State agencies, including State colleges and universities and other ancillary agencies, to ensure that over 3,800 pieces of State property are adequately accounted for and accurately stated as capital assets[1] in the Comprehensive Annual Financial Report (CAFR).

Due to a wide-ranging set of issues related to commercial leasing, the SPM expressed the desire to have the Leasing Coordinator focus solely on commercial leasing without spending time on State-owned property or related property management tasks. Given this approach, coupled with the vacancy of the Staff Assistant, there have been some overall inefficiencies and backlogs in the standard day-to-day property management operations, primarily in record keeping and digitization of property files.

The SPM is currently working with the State Personnel Division to identify candidates to fill the Staff Assistant vacancy and expects to fill the position in the near future. In addition to the SPM and Leasing Coordinator, a temporary employee is currently in place and providing administrative support.

Current Practices

The SBD property management group uses a number of tools and procedures to meet its responsibilities as the State's leasing agent. While not an all-inclusive list of the practices currently employed by the group, the following provides an overview of the strategies used by the staff to meet the operational responsibilities of the property management operation. Some aspects of the practices described below include involvement from other SBD staff outside of the property management group.

External Leasing Manual
As the State's leasing agent, the PMG interacts with other State agencies on a regular basis as part of the State-owned and commercial leasing process. The SBD has developed a133-page manual that provides a detailed explanation for the planning and procurement of leased space. This includes a description of how State agencies request new space and progress through the request for proposal (RFP) process for real property leases and the lease renewal processes. The manual also includes related statutes, rules and regulations, as well as necessary forms that can be completed through each of the processes, such as the leasing requisition form.

---

[1] Capital assets include property, plant, equipment and infrastructure assets (e.g. roads, bridges and similar items) as reported in the applicable governmental or business-type activities columns in the Statement of Net Assets included within the State of Nebraska CAFR.

<u>*Space Planning Guidelines*</u>
Similar to the External Leasing Manual, the SBD developed a 33-page manual outlining space planning guidelines to aid in its planning process for both commercially leased and State-owned space. The guidelines provide an overview of space planning, details on specific processes such as space move requests and necessary forms including the space move request form. The guidelines allow the SBD and State agencies to determine the space needs of all State agencies and establish space-allocation standards and conduct annual audits of all State-leased space. In the Fall of 2011, the SBD held a training session to review the guidelines and train agency staff on standardized space planning guidelines. The training was attended by approximately 40 employees from State agencies and provided the foundation for institutionalizing more standardized space planning guidelines across the enterprise.

<u>*All-Inclusive Leases*</u>
In the past, most commercial leases were not all-inclusive, so agencies were responsible for managing day-to-day tenant issues (such as a getting a leaky faucet fixed or making utility payments.) In some instances, this resulted in multiple contracts or arrangements for a single rented space. Beginning in 2011, the current SPM has shifted all new leases to all-inclusive agreements that require landlords to be responsible for property maintenance and utilities. This simplifies the process, as State agencies make a single monthly payment. There are a limited number of State agencies that are still under contract from previous agreements that may not include all-inclusive terms, but as their current contracts come up for renewal they will also be transitioned to this monthly payment approach.

<u>*Lease Renewals*</u>
When current leases approach renewal, the PMG works with State agencies to determine whether the agency would like to remain in the current space or seek new space. In most instances, State agencies choose to remain in the same space, and while the SBD has final decision-making authority for determining where State agencies are located, the agencies have significant input in the decision making process.

The typical lease negotiated by the PMG is a two-year agreement with two to three two-year State options to renew. All of the agreements include no fault non-appropriation clauses that provide the State with the blanket exception of non-continuation of a lease agreement if they are not granted adequate funding (appropriations) from the Legislature. Some larger spaces have five to ten year leases, but the majority of commercial leases are two years plus renewals. In an effort to achieve cost savings for the State, the SPM has recently made a handful of attempts during the lease renewal processes or when renewals have expired to modify terms of the agreements, such as rental rates. To date, there has only been one successful lease renegotiation, for a space in Grand Island, where the landlord agreed to lower lease costs for upcoming years. The SPM has also made an effort to remove other costly terms during the renewal process, such as cost of living increases (COLAs).

<u>*Market Trend Analysis*</u>
The SPM uses three market trend reports – Grubb & Ellis' Market Trends Report, NAI FMA Realty's Market Report and C.B. Richard Ellis' Loop Net website – to determine market trends and gather information when finalizing a new lease to ensure the terms are in line with the

overall market. Multiple sources are used both for confirmation of rental rates (along with other relevant factors) and for instances when reports are not up to date for a particular market.

The PMG is also considering entering into an agreement with the CoStar Group, a commercial real estate information company that produces market trend reports similar to the three that are currently in use. A unique aspect of the CoStar Market Report, compared to most industry data, is that the primary sources are tenants, not brokers or landlords. In return for providing tenant-based information, which can help guard against inflated rental rates, CoStar is requesting rental rate information for the State's commercially leased spaces.

Goal Sheets
The SBD completes annual "goal sheets" for each piece of State-owned property that serves primarily as a capital construction planning tool for maintaining or renovating State-owned space. These "goal sheets" are primarily on the physical infrastructure of the asset, including a description of its current condition and physical repair needs. The sheets do not include data that may drive operational decision-making for state-owned assets.

Surplus Property
The Vacant Building and Excess Land Committee (VBEL) is responsible for determining the resolution of surplus buildings and land. The Committee is comprised of three members – the Director of DAS, the Administrator of SBD and the Administrator of the Task Force for Building Renewal.[2] This Committee meets at least four times in a calendar year to consider buildings or land that State agencies have requested for review. VBEL then creates a plan for the property that considers alternate and future uses for the given property. A final decision is then made to determine if the building or land is in excess of the State's need and whether it should be used by another agency, sold, leased or structures demolished.

Since property review is generated at the State agency-level, the amount of buildings and land VBEL reviews – and whether it meets at all on a quarterly basis – is dependent on whether State agencies request property reviews. In 2011, VBEL did not have its fourth quarter meeting because no additional buildings or land had been put forward for review.

When VBEL determines that a building or land is in excess of the State's needs, it can be sold through a public auction. Currently, the process for sale of excess buildings and land is done through in-person auction. The SBD has discussed the possibility of moving towards online auctions, but additional research is needed to determine if this is a viable option. Other options for the sale of surplus property include sealed bids, real estate listings or direct sales.

Use of Private Brokers
The SBD has recently agreed to a partnership with C.B Richard Ellis (CBRE), an international real estate services firm with a multi-sector client base. CBRE has recently been given authority to handle approximately four to six commercial lease renewals sometime in late 2012. This is the first time that SBD has used a private broker for commercial leasing. The agreement will be

[2] The Task Force for Building Renewal is a separate DAS division that was created by the Deferred Building Renewal Act (LB 309). The legislation established the Building Renewal Allocation Fund which can only be expended to fund building renewal work or the costs of administering the program. The projects completed through use of this Fund must be approved by the Task Force, which is commonly referred to as 309 in reference to its original legislation.

used as a pilot project to compare both the cost of the service and the cost savings from the new leases to the property management group's current performance. The SPM, who has been in the position since July 2011, is not aware of the use of any other private contractors for property management services.

When considering the use of private contractors, the SBD must take into account Nebraska State Statute 73-203, which limits the annual amount of any contingent fee at $25,000 unless instituted by the Governor with mandated public notification.[3] In practice, this would cap the amount that a firm such as CBRE could earn should its handling of commercial leases produce a favorable result.

[3] Laws 1995, LB 519, § 2

Technology

The property management group uses Microsoft Access (Access) as its database management system for all of the SBD's inventory management needs, including the addition of new leases and lease modifications. According to property management staff, Access is "slow and cumbersome" and presents three significant limitations that create inefficiencies as they attempt to perform routine tasks:

- First, only one employee can be logged into the system at a time, so staff must wait to use Access – often in response to the needs or requests of others – until any current users are logged out. This lack of multi-user capabilities creates significant inefficiency for a staff of two to three FTEs. As the SPM explained, she literally "yells out" to the Leasing Coordinator when she has logged out of the system.
- Second, SBD staff has concerns that Access will fail and lose important data. Due to the perceived instability and unreliability of the database, which has resulted in outcomes such as missing data when reports are run, users are cautious when modifying files for fear of losing previously saved data. It does not appear that the primary users of Access have confidence in the software that is central to their ability to work effectively and efficiently.
- Third, a limited number of fields for data mining, as well as an arduous modification process, do not allow the property management staff to maintain all relevant data. The fields in the database were set when the system was implemented and in the everyday experience of staff, it is nearly impossible to create alternatives for this issue. For example, the SPM would like to track lease rental rates compared to market rental rates for each new lease that is completed, but Access does not allow for that data to be compiled.

As part of a related report that PFM recently completed for DAS on the key performance indicators (KPIs) of the SBD, State Personnel Division, State Materials Division and State Accounting Division, PFM recommended four KPIs for each division. One of the SBD's four recommended KPIs was the "*% of Commercial Leases with Rental Rates below Industry Averages (for the Lincoln and Omaha area.*" Though the SPM uses multiple market trend sources to compare rates to market averages on a case by case basis when completed leases, Access' does not allow the PMG to track this data in a manner that can provide sufficient data and reports to support this KPI.

Performance

As previously noted, PFM completed a report in January 2011 that provided four KPIs for the SBD, two of which are primarily related to the property management function:

- % of Commercial Leases with Rental Rates below Industry Averages (for the Lincoln and Omaha area)
- Vacancy Rate of State-Owned Office Space

By monitoring the rental rates in comparison to market averages, the property management group can more effectively manage and control the cost of commercially leased spaced. In addition, the utilization rate for state-owned space provides valuable information for asset management decision-making.

Percentage of Commercial Leases with Rental Rates below Industry Averages

Due to the previously noted technological constraints of the Access database, the SPM does not track the percentage of leases compared to market rates on an aggregate basis, even though a market rate analysis is performed before any new agreements or renewals are finalized. However, based on Excel-based commercial lease inventory data as of September 2011 that the SBD provided to PFM, it appears that the current State per square footage lease rates for office space in Omaha and Lincoln are below market averages.[4]

In Omaha, the State leases 11 office spaces with a total of 50,142 square feet, with an average rate of $14.65 per square foot. A CBRE Omaha market analysis for the fourth quarter of 2010[5] indicates that the average lease rate for office space was $17.61 per square foot. This represents a $2.94 per square foot, or 17 percent savings for the State compared to the market average. Of the 11 State office leases, only three leases representing just 7,317 square feet have rates above the $17.61 average.

It should be noted that the commercial lease data maintained by the SPM tracks square footage and rate data but does not indicate whether the leased space would be defined as commercial class A, B, or C space. This data would be necessary to do a more definitive analysis of state rates compared to other commercial rates.

In Lincoln, the NAI FMA Realty Lincoln market report for the second half of 2010[6] estimates an average lease rate of $16.23 per square foot, while the State has approximately 46 leased office spaces, totaling 587,347 square feet, with an average rate of $12.70 per square foot. This represents an average savings for the State of $3.53 per square foot, or 22 percent compared to the market average. Of the 46 leased office spaces, only five spaces that represent just 40,334 square feet have rates above the market average.

Again, it should be noted that the commercial lease data maintained by the SPM tracks square footage and rate data but does not indicate whether the leased space would be defined as commercial class A, B, or C space. This data would be necessary to do a more definitive analysis of state rates compared to other commercial rates.

The Omaha and Lincoln data is displayed in the chart on the following page:

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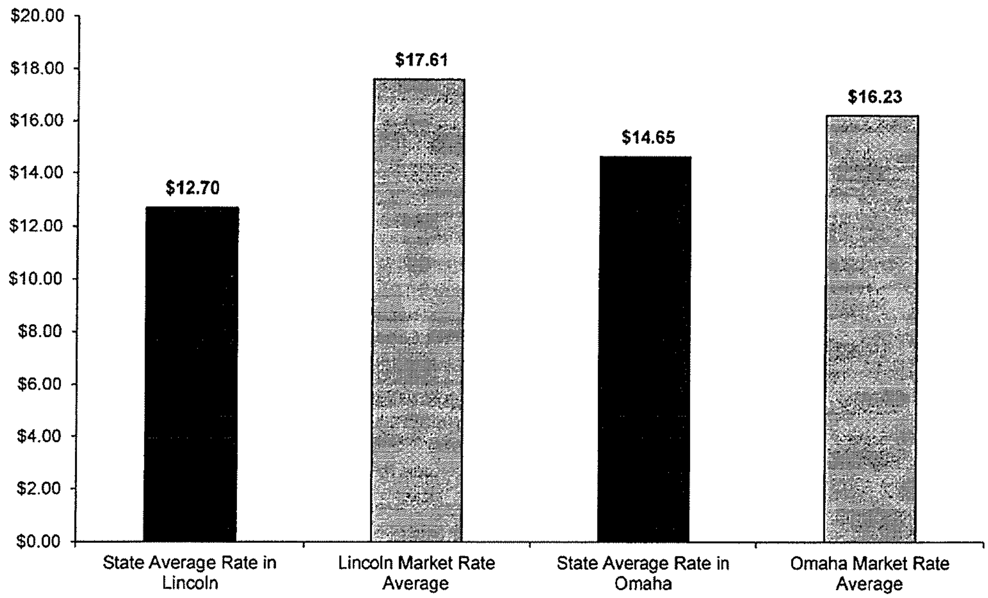
[4] The market trend information referenced for Lincoln is based on the second half of 2010 and the market trend information referenced for Omaha is based on the fourth quarter of 2010. It is possible that the average rates in each market have changed, but the most up-to-date market information would require a subscription service that was not available for this project.. Given current market conditions, which generally reflect a decline in the occupancy rates and square footage rates for urban commercial office space, it is likely that rental rates have not increased significantly, if at all.

[5] Omaha State Office Building: Presented to the State of Nebraska, Department of Administrative Services, p.11

[6] NAI FMA Realty Market Report Second Half 2010 Lincoln, Nebraska, p.3

Figure 1: State Average Rates for Office Space vs. Office Space Market Rates in Lincoln and Omaha



Vacancy Rate of State-Owned Office Space

The PMG recently made an adjustment to Access that will allow staff to track aggregate vacancy rate data for state-owned property. This allows the SPM to track the utilization of state-owned office space and provide the SBD with quarterly performance updates. The SPM provided a utilization report for the Scottsbluff State Office Building, Nebraska State Office Building, North Platte State Office Building and Omaha State Office Building that shows, as of February 6, 2012, vacancy rates relatively low, with only 5 percent of state-owned office space vacant. It should be noted that current software limitations do not allow the SBD to track historical occupancy rates beyond the previous month.

Table 1: Vacancy Rates for State-Owned Office Space[7]

Building	Actual Lease Square Footage	Total Leasable Square Footage	Percent Occupied	Vacancy Rate
Scottsbluff State Office Building	14,984	16,745	89%	**11%**
Nebraska State Office Building (Lincoln)	382,934	392,571	98%	**2%**
North Platte State Office Building	16,510	17,030	97%	**3%**
Omaha State Office Building	115,226	132,553	87%	**13%**
Total	**529,654**	**558,899**	**95%**	**5%**

[7] These rates are a snapshot in time and based on the "State-Owned Property KPI Report" dated February 6, 2012. This data may not include State-owned office space in other locations throughout the state.

Asset Sales

A recent notable asset sale is that of the Joslyn Castle, an architecturally rich site that is on the National Register of Historic Places. The State assumed control of Joslyn Castle and was responsible for maintaining the site over the last two decades, at a cost of approximately $1.5 million, though no State agencies or employees used the site. In 2010, the State reached an agreement with the Joslyn Castle Trust, a philanthropic support group, for sale of the property for approximately $1.4 million.

Expert Valuation Analysis

In December 2011, CBRE performed an analysis of the following State-owned properties:

- Omaha State Office Building (OSOB)
- Omaha Park II (a nearby parking garage serving downtown Omaha)

The CBRE analysis estimated an approximate sale price of $17.9 million for the OSOB[8] and a replacement value for Omaha Park II of $5.75 million.[9] Combined, these two assets could potentially generate approximately $23.7 million at sale. In addition to the potential one-time revenues at sale, there are three operational issues that may impact the State's decision-making process:

- The SBD is considering moving the State agencies currently housed in the OSOB to other parts of the city in order to be closer to other State agency locations. An internal geographic information system (GIS) analysis showed that most State agencies in Omaha are located in north and west Omaha, not downtown, so there may be an opportunity to move some of the agencies in the OSOB to these areas.
- The Kiewit Corporation, the only private-sector tenant in the OSOB, occupies 34,067 square feet, or 24 percent, of the OSOB's 144,442 rentable square feet (self-contained on the first floor). Kiewit's lease will be up for renewal in 2012; as with any landlord/tenant relationship, there is the risk that Kiewit may choose to no renew the lease, which would have an impact on leasing revenue.
- At present, the State charges $30 per stall at the Omaha Park II parking garage. In comparison, CBRE estimates that nearby parking garages can charge almost $75 per stall, resulting in an effective under-valuing of the asset compared to private sector competitors.

Other Potential Opportunities

The other major property sale that SBD has been involved in is located at 14th and Military Road in Lincoln (14th and Lincoln). The buildings and land located at this property, approximately the size of one city block, are part of the larger Nebraska Army National Guard complex that is located on Military Road between 10th Street and 14th Street. The complex serves as the joint headquarters for the U.S. Army and Nebraska Army National Guard, but as a result of a soon to

[8] CB Richard Ellis, "Omaha State Office Building – Presented to the State of Nebraska, Department of Administrative Services", p.45
[9] Ibid, p.47

be completed new joint headquarters, some aspect of this complex can be sold as personnel are transferred to the new site. The University of Nebraska-Lincoln has a purchase agreement for the site, with an approximate value of $1.5 million, and it is expected that the deal will be closed in 2014. The SPM also estimates that one to two joint military armories may be sold in 2014 as well.

Benchmarking and Best Practices

Benchmarking and Best Practices

Overview

In any effort to explore privatization opportunities, it is helpful to evaluate the property management practices in other states, as well as current best practices. To assist in this review, a benchmarking survey analyzing current property management functions was created for comparable states, and research was performed to learn about privatization efforts in other states. Research was also performed to gauge current trends in best practices for property management of related organizations. Lastly, research was performed to follow-up on a presentation to DAS staff in May 2011 made by CBRE regarding potential public-private partnerships.

Benchmarking

Overview

Four comparable states – Colorado, Iowa, Missouri and Utah – completed a benchmarking survey that was developed with input from SBD staff. The purpose of the survey was to set a foundation for comparison of current SBD operations and make inquiry to any past, present or future privatization efforts in these states. The survey was organized in four categories: budget, real and state-owned property, rental property and privatization. Overall, the results show that while the respondents have somewhat divergent budgetary practices, they have relatively similar practices for state-owned and rental property functions.

The real estate management functions for the comparable states are organized as follows:

- **Iowa**: Department of Administrative Services, General Services Enterprise
- **Missouri**: Office of Administration, Real Estate Services
- **Utah**: Department of Administrative Services, Division of Facilities and Construction Management
- **Colorado**: Office of the State Architect, Real Estate Programs

Iowa, Missouri and Utah are organized using a similar model to that of SBD in that property management services are housed under the umbrella of the primary administrative department for state government. Colorado also follows a similar model, and it appears that any major differences from its Office of the State Architect, housed in the Department of Personnel and Administration, to that of the SBD are largely a naming issue, as it is responsible for all state building management functions.

Budget

The SBD's PMG has three budgeted FTEs that are responsible for property management services. The Leasing Coordinator is dedicated to commercial leases, the currently vacant Staff Assistant position handles issues related to state-owned leased space and the SPM works in both areas (the SPM is counted in the commercial leased section of the table below due to amount of time spent on those functions). The budget impact of these three positions is approximately $120,000, which primarily consists of wages and benefits, as well as some operating costs such as document services. As with many similar services, property management services are billed by DAS to the agencies that receive the service. The following table compares the operations and budgets for Nebraska and the benchmark states:

Table 2: Budget Comparison

	Nebraska	Colorado	Iowa	Missouri	Utah
Organization	Department of Administrative Services, State Building Division (Property Management)	Office of the State Architect, Real Estate Programs	Department of Administrative Services, General Services Enterprise	Office of Administration, Real Estate Services	Department of Administrative Services, Division of Facilities Construction and Management
FY2011 Spending Authority*	$120,000	Delegated to individual agencies.	$343,000	$2,400,000	$450,000[10]
State-Owned Property FTEs	1	N/A	2	10	N/A
Commercial Lease FTEs	2	2 (with help from contractors)	1	10	5
How Are Property Management Services Funded?	Legislative authority provides for regular appropriation of department funds for services.	N/A	Departments are billed directly for services.	N/A	Each agency signs an operations and maintenance agreement for a set annual amount.

**Includes wages, benefits and other related FTE expenses.*

Iowa appears to be most similar to the PMG in the number of FTEs, its spending authority and its practice of billing departments directly for services. Colorado has a similarly small number of FTEs for its commercial leasing functions, but all spending authority is delegated to individual agencies. Utah has a slightly larger staff with five (5) FTEs that perform real estate management and, accordingly, the budget for this group is larger than the SBD's property management group. Agencies in Utah sign an annual agreement for the cost of property management and maintenance services. Given their significantly larger staffing compliment and spending authority, Missouri is an outlier when compared to the rest of the states.

Overall, the SBD PMG has the smallest spending authority and equivalently sized staff when compared to the comparable group.

State-Owned Real Property

The PMG within the SBD uses Microsoft Access to maintain its inventory of State-owned property and commercial leased space utilized by all State agencies as the SBD has final authority and responsibility for determining the use of State-owned property. State agencies are

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[10] Represents the approximate amount of funding for the lease management group, which handles real estate issues in general.

charged a fee for the use of State-owned property as well, which is based on a rate per square foot and an additional one percent assessment fee for administrative costs.

Table 3: Real and State-Owned Property Comparison

	Nebraska	Colorado	Iowa	Missouri	Utah
Method for Maintaining Inventory of State-Owned Property	Access	Access or other database	Access or other database	Archibus	Access or other database
Method for Maintaining Inventory of Commercial Leases	Access	Access or other database	Access or other database	N/A	Access or other database
Responsible for Determining Use of State-Owned Property	State Building Division	Agency that holds title	Department of Administrative Services	Commissioner of Office of Administration	Division of Facilities Construction and Management
Do Agencies "Pay Rent" or a Fee for Use of State-Owned Property?	Yes	Yes	Yes	Yes	Yes
Rent/Fee Detail	Rate per sq. ft. and 1% assessment fee	Fees are set to cover utility expenses for the capital complex property.	Agencies in state owned property pay an association fee per sq. ft.	Rent is based on the prior year annual cost of operations for each facility and charged per sq. ft.	Agencies cover the costs of maintenance, utilities, etc., as well as debt service when applicable.

Again, Iowa appears to be the most similar to the PMG in this area, because it uses Access or similar database software to maintain its State-owned property and commercial lease inventories, its Department of Administrative Services has responsibility for determining the use of State-owned property and it charges agencies a fee based on square footage. Colorado also uses a database software program similar to Access and charges agencies fees that are based on utility expenses. However, the agency which holds the title has the responsibility for determining the use of State-owned property, not the SBD property management group equivalent organization. Missouri uses Archibus, software that is specific to real estate, infrastructure and facilities management to maintain its inventory of State-owned property, a different practice than found in the other states. Similar to the rest of the group, however, its SBD equivalent has State-owned property decision-making authority and it charges a square footage based fee for State-owned property use. Utah uses an Access-like database, the SBD equivalent has final authority to determine the use of State-owned property and agencies pay a fee that covers the costs of utilities, maintenance and other operations.

In general, the PMG appears to operate similar to the rest of the comparison group. Other than Missouri's use of real estate-specific software, the other states use general database software and charges fees for the use of State-owned property that are assessed by square footage.

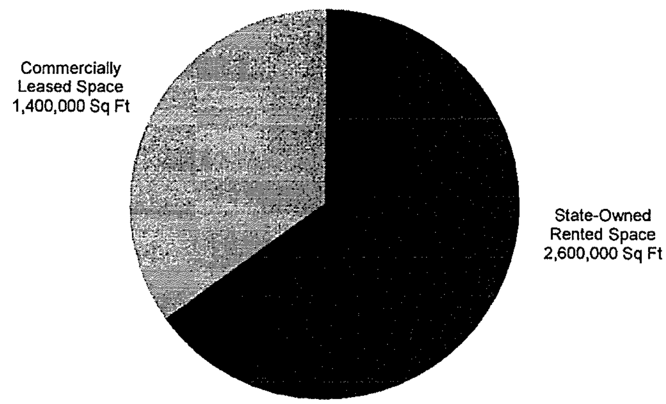
Rental Property

As previously noted, the PMG keeps an inventory of both commercially leased and State-owned rented space. Based on data for commercially leased space as of September 2011, the PMG manages an inventory of 1.4 million square feet of rented space worth approximately $13.6 million and 2.6 million square feet of State-owned space. State-owned space currently includes:

- Office Buildings
- State Patrol Facilities
- Law Enforcement Training Facility (Grand Island)
- Regional Department of Health and Human Service (DHHS) Centers
- Data Centers

The chart on the following page provides a breakdown on commercial leased space and state owned rented space:

Figure 2: Comparison of State-Owned Rented Space and Commercially Leased Space



Based on the previously noted data for state-owned office space, the Scottsbluff State Office Building, Nebraska State Office Building, North Platte State Office Building and Omaha State Office Building have approximately 559,000 in total square footage that can be leased; based on rental rates and square footage, this translates into leasing value of approximately $7.3 million. Most leases are two years in length with two to three two-year optional renewals, which can result in total of six to eight years of overall duration of the lease. For larger spaces, leases tend to be five to ten years in length due to the additional complexity of identifying and securing larger amounts of square footage. Contracts for both State-owned and commercially rented space have non-appropriation clauses.

To date, the PMG has not been able to track aggregate market vacancy rates, and as a result, has not performed market or portfolio-wide leased spaced utilization evaluations. As the State's leasing agent, the group must be contacted by agencies prior to seeking any commercial space. As part of that process, the SPM conducts market trend analysis when new leases are completed and during the renewal process.

In terms of commercially leased space, Iowa's 1.1 million square feet is much smaller than Missouri's 3.3 million square feet and Colorado's 3.4 million square feet. Utah, however, has the largest commercial portfolio at 14.4 million square feet. Accordingly, Iowa's commercially leased portfolio is valued at $12.9 million, while Missouri's is valued at $40 million and Colorado's at $47 million. While Utah's portfolio is much larger than the other states, its value of approximately $24.8 million is significantly smaller than Missouri and Colorado. In terms of state-owned rented space, Missouri's portfolio of 21 million square feet and an approximate value of $105 million are significantly larger and more valuable than other comparable states.

In terms of commercially leased space, the PMG, with 1.4 million square feet of commercially leased spaced and an approximate value of $13.6 million, once more seems to be most similar to Iowa in the size and value of its commercial portfolio. Overall, it has the second lowest amount of commercially leased space and the second lowest approximate value of commercial leases compared to the benchmark group.

In terms of state-owned rented space, it appears that the PMG's 558,899 in square footage and $7.3 million approximate value are lower than of the comparable states. However, it should be noted that these totals only reflect the amount of square footage and an approximate dollar value based on average rates in the Scottsbluff, North Platte and Omaha State Office Buildings. It is likely that the data provided by the comparable states may include state-owned rented space other than office space.

Table 4: Rental Property Comparison

	Nebraska	Colorado	Iowa	Missouri	Utah
Maintain an Inventory of Commercially Rented Space?	Yes	Yes	Yes	Yes	Yes
Square Footage	1,428,983[11]	3,402,576	1,149,189	3,300,000	14,398,546
Dollar Amount	$13,554,565[12]	$47,043,185	$12,870,560	$40,000,000	$24,847,818
Maintain an Inventory of State-Owned Rented Space?	Yes	Yes	Yes	Yes	Yes
Square Footage	558,899[13]	1,241,815	1,782,829	21,000,000	N/A[14]
Dollar Amount	$7,266,989[15]	$13,736,998	$55,648,784	$105,000,000	N/A
Average Length of Rental Contracts	2 years with 2-3 2-year renewals; 5-10 years for large spaces	5 years	1-3 or 5 years	1 year with four 1-year renewals	5 years
Do State-Owned Contracts Have Non-Appropriation Clause?	Yes	Yes	Yes	No	Yes
Do Commercial Contracts Have Non-Appropriation Clause?	Yes	Yes	Yes	Yes	Yes
Is Leased Space Utilization Regularly Evaluated?	No	Yes	Yes	Yes	Yes
Evaluation Detail	N/A	N/A	Every 3-5 years	Annually	Annually

[11] Approximate total based on "Lease Inventory 09-21-2011" data for commercially leased space.

[12] Approximate total based on "Lease Inventory 09-21-2011" data for commercially leased space.

[13] Based on the "State-Owned Property KPI Report" dated February 6, 2012. This data may not include State-owned office space in other locations throughout the state.

[14] The square footage and dollar value of state-owned property is difficult to approximate as different entities own property of many different types throughout Utah and many of those properties are managed directly by the occupying agencies.

[15] Based on the "State-Owned Property KPI Report" dated February 6, 2012. This data may not include State-owned office space in other locations throughout the state. Dollar amount is an approximate value based on the total number of square footage in each of the four State Office Buildings multiplied by the "office combined rate" for that building. The $7.3 million figure represents the summation of this value in each of the four State Office Buildings.

	Nebraska	Colorado	Iowa	Missouri	Utah
Are Agencies Required to Obtain Approval for Rented Space?	Yes	Yes	Yes	Yes	Yes
Approval Detail	Prior to seeking space, review and approval of contract	Prior to seeking space, review and approval of contract	Prior to seeking space, review and approval of contract	Prior to seeking space, review and approval of contract	Prior to seeking space
Is a Market Trend Analysis for Commercially Leased Space Conducted?	Prior to agreement and at renewal of lease agreement	Prior to agreement, during lease term and at renewal of lease agreement	Prior to agreement and at renewal of lease agreement	Prior to agreement, during lease term and at renewal of lease agreement	At renewal of lease

The average length of rental contracts is slightly different in each state, but they tend to be based around five year contracts. Iowa generally uses contracts that are one to three years or five years in length, and the average contract for both Utah and Colorado is five years. Missouri uses contracts that average one year in length but have four additional one-year renewals, similar to the SBD PMG's use of shorter contracts with multi-year renewals that provide the State with the flexibility of opting out of the leases every two years if there are extenuating circumstances. All of the comparable states use a non-appropriation clause in their contracts for commercial leases and only Missouri does not include them in contracts for State-owned rental contracts.

All of the comparable states perform some type of evaluation for the utilization of leased space: Iowa every three to five years and both Utah and Missouri perform a portfolio-wide analysis every year. Agencies are required to seek approval prior to seeking rented space and during the contract review and approval process in each state; though it appears agencies in Utah may have more autonomy during the process than in the other states. Similarly, market trend analysis is performed in each state prior to the completion of an initial agreement and during the renewal process, with Missouri and Colorado also performing analysis during the lease term.

The SBD PMG's use of non-appropriation clauses and role in approving the rented space of State agencies align with the practices in the other states. The SPM's procedure of conducting market trend analysis prior to completing agreements and during the renewal process also align with the practices in the comparable states, though Colorado and Missouri also conduct that type of analysis during the life of the lease as well.

The most significant difference for the SBD PMG in this area is the lack of regular leased-space utilization evaluations. In general, the group only looks at a lease when it is coming up for renewal or when the lease is ending and does not perform any type of market (such as Omaha or Lincoln specific) or portfolio-wide evaluations.

Privatization and Public-Private Partnerships

As previously described, the SBD has recently reached an agreement with CBRE to handle four to six commercial leases sometime in 2012. This will be the first time the SBD has used a private broker. A cost-benefit analysis is planned after the completion of the new leases to determine whether the process is more efficient and less costly than current practices.

Colorado, Iowa and Utah have not privatized any current real estate management functions nor or they considering any public-private partnerships in the near future. Missouri has privatized at least some aspects of its asset sale process. In comparison to the other states, the SBD appears to be more aggressive in the consideration of possible options for privatization and public-private partnerships.

Table 5: Privatization and Public-Private Partnerships

	Nebraska	Colorado	Iowa	Missouri	Utah
Are Any Aspects of Real Estate Management Privatized?	Yes	No	No	Yes	No[16]
Privatization Detail	Exploratory partnership with private broker for 4-6 commercial lease renewals in late 2012	N/A	N/A	Asset sales	N/A
Are Any Public-Private Partnerships Under Consideration?	Yes	No	No	N/A	N/A

Best Practices, Trends and Related Research

The majority of the best practice research falls into two categories: technology and planning. There have been several best practices developed and implemented in these two areas by federal agencies with property management responsibilities. In many cases, innovated solutions were developed to address departmental challenges that were often adopted by other departments within the same organization. Overall, the procedures were able to reduce, reuse or reallocate assets in ways that made it easier to manage and optimize their use. Also, a significant trend seems to be an emphasis in some other states on lease renegotiations, primarily as a cost savings measure as state budgets nationwide continue to feel the effects of the 'Great Recession.'[17]

Technology

A reoccurring theme in the research focused on the basic challenge managing the large volume of properties under government control and the lack of significant technological advancement in the development of databases or other management systems to house necessary information:

[16] Utah noted that janitorial and some maintenance functions are privatized, but for the purposes of this assessment, it has been labeled as "no."

[17] While the National Bureau of Economic Research determined that the last recession ended in June 2008, state budgets have continued to be negatively impacted, particularly state revenue collections. According to the National Association of State Budget Officers December 2011 State Expenditure Report, "Spending from state funds (general funds and other state funds combined) declined in both fiscal 2009 and in fiscal 2010, marking the first occurrences of outright spending declines in the 24-year history of the State Expenditure Report. The reduction in spending from state funds was due to a rapid decline in state revenue. During the two-year period from fiscal 2008-2010 state general fund revenues decreased nearly 12 percent, or by$78 billion.

Table 6: Technology Best Practices

Organization	Function	Description
National Park Service	Data Management for Real Property Reporting	Created a service-wide asset management database. This database has helped alleviate troubles associated with inaccurate data collection and streamlined information gathering practices.
U.S Army Corps of Engineers	Real Property	Developed a comprehensive photograph-based real property asset management system. This system continues to save $10,000 annually by enhancing the ability of all users to understand the $2 billion in property under management.
U.S. Army	Contingency Operations and Real Property	Developed and implemented a user friendly, self-service, web-based real property management, tracking and reporting capability for contingency environments where it is challenging to manage and account for property.
General Services Administration	Real Property	This program incorporates Geographic Information System (GIS) technology to create the first e-commerce leasing application in the Federal government. This program reduces costs related to the acquisition of real property lease assets, improves the supply and pricing of space offered for lease, and improves customer satisfaction by delivering space faster to its customer agencies.

Overall, the practices outlined above demonstrate innovate responses to the typical challenge of developing efficient and effective measures for tracking property information. Practices such as the photograph database created by the U.S. Army Corps of Engineers or the GIS-based customer service platform used by the General Services Administration exemplify the impact that can result from investments in technology.

Planning

Government agencies increasingly rely on leasing of properties without consideration of selling off underutilized buildings or investing in infrastructure. This has largely been driven by a belief that the costs associated with retrofitting buildings outweigh the benefits, as the buildings are either in significant disrepair and would interfere with the tenants' ability to complete their mission, or they would deplete the already scarce maintenance and repair resources.

Table 7: Planning Best Practices

Organization	Function	Description
NASA	Real Property Portfolio Improvement	Developed long-term plans for property including the creation of new metrics and management tools.
General Services Administration	Portfolio Management	Web-based system provides detailed building evaluation data and can efficiently run reports, examine financial scenarios and collaboratively plan projects.
General Services Administration	Asset Management	Asset Business Plans (ABP) includes the description, location, photo, function and use of each asset. The ABP also includes financial information for rent, repairs and operating costs, as well as market information such as rental and vacancy rates.

Overall, the importance of strategic planning to most effectively identify immediate and long-term efficiencies in real estate property management operations to reduce the costs of maintaining real estate portfolios is paramount. The type of asset strategy plans developed by NASA are a great example of the type of detailed asset-specific planning that is needed to best prepare for long-term needs. Space planning is critical to identifying the appropriate amount of space and adequate location for state operations, consolidation of space locations to maximize existing resources and to achieve savings and increase leased space utilization for state-owned buildings.

Lease Renegotiations

As governments of all sizes have been forced to identify cost savings in many areas, lease renegotiations have become increasingly popular. Especially due to the drop in commercial real estate values as a result of the 'Great Recession,' there is an opportunity to reduce costs as market rental rates drop, and therefore save taxpayer dollars, through lease renegotiation before the terms of the lease are completed. It is also a useful tool during the lease renewal process, as landlords may be willing to lower costs or make capital improvements to maintain or extend future contracts.

Table 8: Lease Renegotiations in Other States

State	Organization	Description
Illinois	Central Management Services	Since 2009, approximately 121 leases have been consolidated and 201 leases have been rebid or renegotiated, allowing for the elimination of 1.7 million square feet of leased space. The State estimates $37 million in savings.
Montana	N/A	Recently estimated almost $4 million in savings for current commercial leases due to rent reductions.
Florida	Department of Management Services, Division of Real Estate Development and Management	In 2009, estimated approximately $7.1 million in savings by agency-led lease renegotiations of existing leases and $6.7 million reduction in lease costs through a tenant-broker program.
Minnesota	Department of Administration	In 2010, lease negotiations resulted in an average lease rate decrease of 1.04 percent and an estimated $6.3 million in cost avoidance over the life of the leases.

In these cases, it has not been possible to identify detailed cost-benefit analysis to determine the true cost or savings associated with efforts in these states, but they do indicate a primary strategy for attempted cost savings in real estate management.

Privatization Efforts in Non-Comparable States

A handful of states that are not necessarily peer states for Nebraska have recently performed sales or leases of state property, passed legislation authorizing state property sale or leasing or are considering such legislation:

- **Arizona:** In January 2010, the State of Arizona performed a sale-leaseback of 20 properties – including the Capitol and the Governor's office – that generated $735.4 million to fill its FY2010 budget gap. A second round of 12 properties was made available for a sale-leaseback in June 2010, this time including the Supreme Court building, which generated $300 million.
- **California:** In October 2010, the California Department of General Services executed a sale/leaseback of 11 buildings – including properties in Los Angeles, San Francisco, and Oakland – that netted $2.33 billion in a single offer for the entire portfolio over 20 years.
- **Louisiana:** In July 2010, the State of Louisiana established the State Buildings and Lands Highest and Best Use Advisory Group to work with executive branch agencies and the Commissioner of Administration in determining whether any underutilized land or buildings could be used in some type of public-private partnership (including non-profits and other public agencies).
- **Texas**: In April 2011, the State of Texas enacted Senate Bill 1040, which authorized government entities to "enter into comprehensive agreements to construct qualifying public projects, including buildings, hospitals, schools, public works, recreational facilities, and others," including the authorization of the sale or leasing of state property.

C.B. Richard Ellis in Other States

In May 2011, CBRE made a presentation to SBD staff. As part of its presentation, CBRE provided a map that provided an overview of their experience in other states. Follow-up research on their work in these states did not produce enough supporting data to determine the true value of their services, but it does support the variety of services the firm provides, often based on a flat commission rate. More detail on CBRE's work in these states can be found in Appendix A.

- **California**: CBRE served as broker for the $2.33 billion sale-leaseback of 11 state buildings in 2011.
- **Connecticut**: In 1997, CBRE won a contract to assist the State with surplus property sales.
- **Florida**: Beginning in 2008, CBRE has served as one of three private tenet brokers for the State with a commission of 2 to 4 percent.
- **Maryland**: In 2009, CBRE won a three-year contract to serve as broker, transaction manager and strategic planner when the State is a lessee (commission only).
- **Michigan**: In 2009, CBRE became sole provider for leasing, strategic planning, marketing and acquisition/disposition, and also serves as broker for state property sales.
- **New Jersey**: CBRE has been contracted to develop a master plan for all executive branch office space with the improving efficiency and generating cost savings.
- **North Carolina**: CBRE developed criteria for the evaluation of surplus property to allow individual agencies to perform "necessity assessments.
- **Ohio**: CBRE serves as the facility manager for the State's computer center and data center.
- **Pennsylvania**: In 2008, CBRE was contracted to provide portfolio and transaction management.
- **Texas**: CBRE provides leasing services for the Texas Facilities Commission.
- **Virginia**: In 2003, CBRE was a contract to provide acquisition, marketing, planning and leasing functions for executive department agencies.

Findings and Recommendations

Findings and Recommendations

Overview

The PMG of the SBD has the important responsibility of serving as the State's leasing agent and maintaining vital information for State-owned property and land. Through our interaction with the State Property Manager, who is responsible for the performance of this group, we have observed a committed staff member who has been extremely helpful in providing documentation and narrative detail to support our analysis.

Findings

Our research and analysis has identified some overarching areas that deserve attention, particularly as the SBD considers options for privatization and public-private partnerships for its real estate management functions:

- **Staffing**. The SBD property management group has three (3) budgeted FTE positions, but only two (2) are currently filled. The SPM is responsible for management and performance of the project management group and the Leasing Coordinator focuses on commercial leasing, the most time-consuming aspect of the group's duties. A vacant Staff Assistant position, and the current reliance on a temporary employee to support administrative tasks, has left the property management group somewhat under-staffed and has resulted in some operational inefficiencies. The budgeted staffing allocation of three FTEs is similar to most comparable states that responded to a benchmark survey.

- **Current Practices**. The SBD property management group uses a number of tools and procedures that align with generally accepted best practices as well as those indicated by responding comparable states. Highlights include:

  - Creation of internal Space Planning Guidelines and an External Leasing Manual to help State agencies understand the rules, policies and procedures for managing leased spaces and space needs. A training session was held for State agencies in Fall 2011 for the Space Planning Guidelines, which also include all necessary forms related to these functions.
  - The SPM performs market trend analysis prior to any new lease agreement and during the lease renewal process. Typically three different market reports are used to evaluate rental rates and attempt to ensure that the State's leases are set at or below market averages. While this is done on a case by case basis when leases are up for renewal, technological constraints do not allow for adequate tracking of this data, which is directly related to a recommended Key Performance Indicator (KPI) for the SBD in a related PFM study.
  - The Vacant Building and Excess Land Committee (VBEL) is a strong blueprint for ensuring that the primary entities involved in surplus property disposition communicate well and work effectively.

Though there are a number of areas where the SBD property management group's property management practices are strong, there are aspects of its current practices that should be reviewed in order to develop strategies and options for improvement. Highlights include:

- The property management group does not use asset strategy documents to aid in the planning and operational decision-making for State-owned facilities. The SBD does utilize "goal sheets" for each property, but these documents are essentially a list of physical infrastructure and repair needs. Moving towards more comprehensive asset planning documents that include metrics and financial information could aid in the long-term planning for state-owned property.
- Public auctions for the sale of State-owned property are not conducted online. SBD staff has expressed interest in moving towards online auctions, but no additional research or follow-up has been performed to determine if shifting to online auctions is a good fit for the SBD.
- The property management group is responsible for maintaining all files related to State-owned property and land, but according to the SPM, many files are missing key documentation or simply empty. The SPM expressed interest in digitizing the current files, but does not currently have adequate staffing to dedicate an employee to this effort.

- **Performance.** A related PFM study that identified Key Performance Indicators (KPIs) for the four SBD divisions recommended two KPIs that are specific to the most critical functions of the property management group:
  - % of Commercial Leases with Rental Rates below Industry Averages (for the Lincoln and Omaha area)
  - Vacancy Rates for State-Owned Property

Based on lease inventory data provided the SPM, it appears that most lease rates for office space are below market averages. In Omaha, eight of eleven leases for office space are below market rates, representing 85 percent of leased square footage. In Lincoln, 41 of 46 leases for office space have rates below the market average, representing 93 percent of leased square footage. It should be noted, however, that the market trend information used for comparison is for the second half of 2010, so the market averages may have changed.

Based on state-owned property occupancy data provided by the SPM, it appears that 95 percent of leasable space in the Scottsbluff, Nebraska, North Platte and Omaha State Office Buildings are occupied as of February 6, 2012. This represents a relatively low 5 percent vacancy rate.

- **Technology**. Based primarily on interviews with the SPM, it appears that the PMG's current database management software – Microsoft Access – may be a roadblock for improved performance and efficiency. Only one user can log into the system at a time, so any other employee that needs to use the database must wait. Users are not confident that the system is reliable and therefore are reluctant to make changes to files in fear of losing previously stored data. Lastly, the limited number of fields for data organization and mining does not allow for easy alteration to best suit the needs of the property management group. It may be worth investigating software options that are specific to real estate management. It should be noted, however, that most of comparable states indicated their use of Access or similar software to manage their state-owned and commercially leased space inventories.

- **Benchmarking.** Overall, the SBD property management group's current practices generally align with those of the comparable states, including an organizational structure that finds the organization responsible for real estate management housed within the primary administrative and operational department for all of state government. Highlights include:

    - *State-Owned Property*: Colorado, Utah and Iowa use Access or a similar database for inventory management, while Missouri uses software that is specific to real estate management. All of the comparable states force agencies to pay "rent" or some type fee for use of state-owned space, which tends to be applied based on square footage.
    - *Rental Property*: The PMG has the second smallest portfolio of commercially leased space compared to the benchmark group, both in terms of square footage and dollar amount. The PMG has the smallest portfolio of state-owned space. The other four states all base their leases around five (5) years, they all include non-appropriation clauses in commercial leases and require agencies to seek approval prior to seeking space.
    - *Privatization:* Iowa, Colorado and Utah have privatized any aspects of their property management functions, and Missouri only enlists private contractors to support asset sales. The SBD property management group's only recent agreement to test-run a small number of commercial leases to C.B. Richard Ellis (CBRE) for a cost savings comparison appears to be more aggressive than the other states.

- **Best Practices and Trends.** Most of the best practice research performed identified technological improvements and planning strategies to improve asset management. Highlights include a U.S. Army Corps of Engineer photograph-based inventory database and asset strategy plans developed by NASA. A significant trend that has been identified on the state level is the emphasis on renegotiating leases prior to the end of the agreement in order to create friendlier financial terms.

Recommendations - Staffing

ST 1. *Fill Staffing Assistant Vacancy for the Property Management Group*
With the addition of a Staffing Assistant, the property management group of the SBD would be in a better position to balance the administrative needs of the State's centralized real estate property management operations.

Recommendations – Current Practices

CP 1. *Create Asset Strategy Documents for State-owned Facilities*
To aid in the planning and operational decision-making for State-owned facilities, the property management group should create asset strategy documents for each State-owned facility.

CP 2. *Strengthen Record-keeping Policies*
The property management group should work to establish a comprehensive set of records for each building/piece of land identified as State-owned property. By establishing a priority level for each parcel of property the SBD will be in a position to prioritize the establishment of records for those parcels most important to the State's property management operations. As an example, maintaining information on the condition and class of commercial leased property will assist in efforts to determine if the State is getting good value from its current or proposed leases.

CP 3. *Strengthen Commercial Lease Renegotiation Efforts*
The property management group should make a more concerted effort to find opportunities to renegotiate leases, even prior to the end of contract agreements, in an effort to continuously evaluate opportunities to create more friendly financial terms and conditions for the State.

CP 4. *Continue State-wide Trainings to Institutionalize Centralized Real Estate Property Management*
The property management group should continually look for opportunities to train State agency staff on streamlining real estate property management functions. By ensuring that each agency is clear on the processes related to leasing and space planning the State will be in a better position to measure and manage the operational costs associated with these functions.

CP 5. *Actively Monitor, Assess and Report on Results of the CBRE Pilot Project*
To its credit, the SBD has undertaken an effort to determine the validity of claims that private sector broker involvement may improve the overall financial results related to commercial leasing. Critical to this determination will be a transparent 'apples to apples' comparison of the results of private and public sector leasing activity. This process should include a full agreement on the costs associated with the public and private sector processes, as well as the financial results. It should also analyze whether the properties handled by both sectors are truly comparable and adjust for anomalies. Finally, some agreement should be reached as to whether the results of the pilot would be scalable for the entirety of state activities.

Recommendations – Performance

PF 1. *Devise a Data Collection and Reporting Methodology for the Selected KPIs*
In an effort to make the best management decisions related to the State's property management function, it is important for the PMG to devise a standard methodology for collecting and reporting on those indicators that have been identified as KPIs.

Recommendations – Information Technology

IT 1. *Update Property Management System Functionality*
The current systems used to manage the State's property management data is cumbersome and at times, unreliable. It is imperative that the SBD provide the PMG adequate system functionality to track, monitor and measure the data related to the State's property management operation; this may include enhanced reporting functionality in the current Access database.

IT 2. *Digitize Property Management Records*
The SBD PMG should transition all property management records to digital files as part of their ongoing efforts to establish a comprehensive set of records for each parcel of State-owned property. This transition will not only allow the PMG to work more efficiently, but will ensure that records related to each parcel are easier to access and more readily available when lease negotiations or analysis related to these parcels may be necessary.

IT 3. *Provide for Electronic Access and Submittal of all Property Management Forms*
In addition to the continuation of training to State agency staff on streamlining real estate property management functions, the SBD PMG should provide agencies electronic access to all necessary property management forms and documents to provide for easier access and a more centralized location for submitting and retrieving standard property management forms and documents.

IT 4. *Explore On-line Auctions for the Sale of State-owned Property*
Public auctions for the sale of State-owned property are not currently conducted online. The PMG should consider the success of other states as it relates to the disposal of surplus property through on-line auctions. Registered bidders may view and bid on property on-line, often increasing the bids from live auctions where in-person participation is necessary.

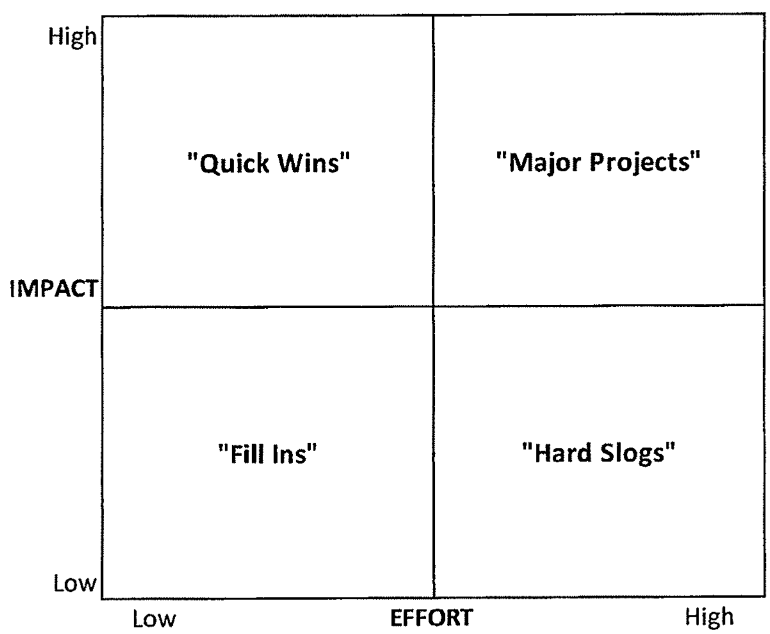
Implementation Approaches

Implementation Approaches

As with any set of findings and recommendations, those contained within this report do not exist in a vacuum – the SBD (and DAS as a whole) have important daily responsibilities beyond property management and a variety of continuous quality improvement initiatives to consider and implement. As a result, it is helpful to break implementation efforts into those that can be considered in the short term as well as those that may require additional planning and a longer timeline for implementation.

It is also helpful to identify initiatives that require relatively less commitment in terms of time and effort. At the same time, it is also useful to identify those initiatives that may have the biggest pay-off for SBD and the State in terms of realized savings or greater efficiency. One way to consider these factors is to graph these considerations. The following is a typical Impact versus Effort matrix:

Action Priority Matrix



When using this matrix, it is clear that the first priority should be projects that land in the upper left 'quick wins' quadrant. These are projects that have a high impact and low effort. Conversely, those in the lower right quadrant – which require significant effort and little return – should be avoided. On the other hand, high impact projects often require significant commitment, and these 'major projects' will have their place – and likely be those that require additional planning and a longer timeframe for completion. While low impact/low effort projects have their place, they are best used as fillers when time and circumstances permit.

Clearly, this exercise of determining the appropriate projects for implementation is best carried out by the individuals responsible for the actual time and effort. We would suggest that this be included in the division's annual planning process and short and longer term timelines are developed for each of the identified activities.

Appendices

Appendices

Appendix A: C.B. Richard Ellis Experience in Other States

The table below provides additional detail on research performed on the work done by C.B. Richard Ellis in other states that was described in the Benchmarking and Best Practices chapter.

State	Department	Division	Description
Michigan	Dept of Technology, Management, and Budget	Real Estate Services Division	Michigan Real Estate Division services have been enhanced by a professional real estate service provider since 2004. In 2009, CB Richard Ellis (CBRE) became the exclusive service provider for leasing services, lease administration, strategic planning, lease tracking/auditing and marketing assistance as well as acquisition and disposition services. CB Richard Ellis also serves as the real estate broker for sale of State property and earns a professional lease fee (5 percent of total lease) on lease agreements.
Pennsylvania	Department of General Services	Property and Asset Management	In July 2008, the Commonwealth of Pennsylvania approved a contract with CB Richard Ellis to provide acquisition, disposition, and other portfolio transaction services for the Commonwealth of Pennsylvania. The contractor is compensated through a brokerage fee on each transaction.
Connecticut	Department of Public Works	Facilities Management Services	In March 1997, the State had issued a request for proposals seeking a real estate consultant to assist the State in disposing of certain major surplus State properties, including the Hospital. CBRE was selected and the resulting contract was negotiated for $205,000 through October 31, 2000. The following year, CBRE released a marketing plan for the hospital, which the State found was not successful in attracting prospective buyers. By 2009, the State offered the property to the Town of Preston for clean up and development. Preston implemented a number of strategies in the CBRE report that resulted in several proposals; however, in the end, none were successful.

State	Department	Division	Description
New Jersey	Department of the Treasury	Division of Property Management and Construction	The State of New Jersey retained CBRE Consulting to prepare a comprehensive master plan for all Executive Branch office space. The focus of the assignment was to maximize efficiency. The State's space inventory was evaluated to determine lease expirations, and the physical condition of occupied facilities. Space standards, lease language and construction specifications were tested. Current space requirements were evaluated for each State agency and projected twenty years into the future. Forecasts were based upon expected state population growth, employment and state budget trends. Space surplus and shortages were also estimated for each agency on a regional, county and site-specific basis.
Ohio	Department of Administrative Services	General Services Division, Office of Properties and Facilities	CBRE serves as the State of Ohio Computer Center's facility management contractor. As part of this role, CBRE reports electrical usage readings to the State on a monthly basis for quarterly invoicing. This has also allowed for monthly electricity consumption figures to be issued to State agency occupants through the tenant website. CBRE also manages the Center's Tier 3 Mission Critical Data Center, operating in excess of .99999 percent availability and managing over $20 million in capital projects, including UPS upgrades, CRAC unit replacements & electrical distribution upgrades.
Maryland	Department of General Services	Facilities Operations and Maintenance Division; Real Estate Division	In October 2009, the Maryland Board of Public Works has approved a three-year contract for CBRE to serve as the State of Maryland's real estate services provider for real estate brokerage, transaction management and strategic planning services where the State is the lessee only. The arrangement was made at no cost to the State; CBRE gets compensated through a commission that a property owner pays, which is quite frankly standard in the industry. CBRE assists the State with the more than 4.7 million sq. ft. of real estate the State leases in multiple locations across Maryland. This contract represents the first time that Maryland has outsourced these services into one contract. Since approval of the contract, the State has reported that it's happy with the services received under the contract. CBRE helped review the State's portfolio, negotiate leases since they have been on board. Those negotiations have led to on average about 14 percent savings in our occupancy costs, which over twenty leases, about 680,000 square feet, represents about $21 million over the term of those leases.

State	Department	Division	Description
Virginia	Department of General Services	Division of Real Estate Services	In June 2004, an Executive Order was issued to establish a unified and fully integrated real estate portfolio management system for the agencies and institutions of the Executive Department. CBRE was contracted in 2003 to provide space acquisition (leases and purchases), analysis of building options and market tours, preparation and analysis of RFPs, summary of business terms and letters of intent, financial modeling of alternatives, negotiation assistance, contract preparation assistance. In addition, the contractor provides buy-out and lease termination negotiation assistance, subleasing, and surplus property brokerage services. CBRE is compensated through commissions payable by landlord or seller for successful transaction based on "prevailing commission structure in market" and transaction commissions for actual sales. Engaging a contractor led to improved market coverage for RFPs, local real estate professionals handling negotiations, more open communication with state agencies, and a more strategic real estate focus for agency staff. As of 2005, 50 transactions had been completed, representing $90 million, yielding a total savings/cost avoidance of $12.5 million.
North Carolina	Department of Administration	State Property Office	Working with the Division of State Property, CBRE reviewed the current inventory of State-owned land and buildings, conducted agency interviews to identify special needs and key criteria of importance to agencies, researched other public and private sector disposition methodologies, and developed criteria to assist in the identification of surplus property. As a result, the contractor created a process that each agency can use to assess whether a given real estate asset is critical to the agency mission or is a surplus property. As part of the process CBRE developed criteria to determine whether a property is used to its highest and best use from both an agency mission and real estate economics perspective. The study concluded with the development of facilities master plans for each county guided, regional and local service center concepts. These plans focused on consolidating agencies into fewer locations. Various alternatives were explored for each county including long-term leasing, and build-to-suit scenarios. Financial analyses were prepared to determine the lowest cost strategy on a county-by-county basis. The long-range strategy recommended a plan that balanced cost savings with efficient service delivery. Immediate and short-term action plans were developed to implement the master plan. Implementation plans identified more than $40 million in savings.

State	Department	Division	Description
Florida	Department of Management Services	Division of Real Estate Development and Management	CBRE, Vertical Integration, Inc, and Cushman and Wakefield of Florida serve as the private three tenant brokers for the State of Florida, first contracted in 2008. These brokers provide lease transaction, portfolio strategy, and real estate consulting services in return for a market-based commission on each brokered transaction, ranging from 2 percent to 4 percent of annual rent. Consulting services are provided on an hourly or fee-for-service basis.
Texas	Texas Facilities Commission		The Texas Higher Education Coordinating Board is staying put in its Northeast Austin headquarters as the state has signed a 10-year renewal lease at the site that saves millions in lease price and renovations. With the assistance of CB Richard Ellis, the Texas Facilities Commission, which oversees real estate for various state agencies such as the higher ed board, has signed a 10-year lease with Cetera Realty at 1200 E Anderson Lane. The deal will save the state some money as it was able to negotiate a decrease in its overall rental obligation by approximately $16 million over the term of the new lease. The board, which oversees the public higher education system in Texas, had looked for more than a year at 11 potential new sites but at the end of the process, found it a better deal to stay put, according to CB Richard Ellis Nate Stricklen, Charles Dixon and Erin Morales of CBRE's Austin office represented the state agencies. Negotiations with building owner, Cetera Realty, also yielded a commitment from the owner to provide a $2 million renovation of the building and interior space Michael Powers, local principal for Cetera Realty, anticipates the overhaul will take approximately nine months to complete.
California	Department of General Services	Real Estate Services Division	The Department of General Services has partnered with California First, LLC (a partnership led by Hines and Antarctica Capital Real Estate LLC), as the buyer for 11 state office properties. The winning offer was $2.33 billion — resulting in more than $1.2 billion for the state general fund, and $1.09 billion to pay off bonds on the buildings. Over the next 20 years, the state will lease the offices back from the new owner at predetermined rates, and will no longer maintain, operate, or repair the buildings. All the leases with California First allow the state to buy back any or all of the buildings during the 20-year term.

Exhibit 6

SBD Evaluation of CBRE Pilot

CBRE PERFORMANCE EVALUATION

1. The following Lessors refused to work with CBRE, due to Compensation fee (equal to three percent (3%) of the gross lease value, payable in full at lease execution):
   CA-65122616 / formerly 65920116 Dept of Revenue, Kearney
   CA-65121081 / formerly 65072481 CBVI Apartments, Lincoln

   SBD was able to negotiate renewals with these Lessors.

2. Regarding the first Nebraska State Patrol RFP# 65112064 in Broken Bow:
   A. Bidders expressed concern that the Compensation fee was increasing their proposed psf.
   B. An evaluation score sheet comparing the two bids was provided by Broker only after SBD requested one. SBD then requested that the submitted score sheet include more information to aid NSP in their decision making.
   C. It was a challenge receiving and relaying necessary communication between all parties; SBD, Michael, Jamie, and Bidders.

3. The Supreme Court requested assistance in finding 970 sf of office space within the 3rd District (Gretna area). Of the two sites CBRE proposed within the District, one was approx. 2,100 sf; the 2nd site was in disrepair.

4. Email correspondence often lacked attention to detail, including:
   A. Omission of CA# in header, making it difficult to quickly identify the contract in question
   B. Some contract numbers were mistyped and not corrected when accuracy was questioned.

AS/SBD Summary of CBRE Services
Through December 2012

Description	Type	Comments
65021223 - North Platte	Renewal-Office	1. Request for 2 yr renewal with no annual CPI 2. Received 5 yr renewal, rental rate frozen for first 2 years with CPI or 3% increases each year after 3. Not known if CBRE fee was discussed
65070833 - Lincoln	Renewal-Office	1. Request for 2 yr renewal 2. Received 2 yr renewal with one-time rate increase of 2% 3. Lessor proposed lease termination if rate increase was refused 4. Not known if CBRE fee was assessed
65071631 - Bellevue	Renewal-Office	1. Request for renewal 2. Agency responded with request for termination
65112064 - Broken Bow	New-Office	1. Request for RFP due to termination of existing lease 2. SBD emailed all RFP documents along with a completed Schedule of Events calendar on June 15, 2012 and again on June 27, due to CBRE missing initial publication deadline for the June 15 Schedule of Events 3. SBD verified with the paper that RFP Public Notice had not been requested for publication 4. SBD provided list of potential bidder with email addresses, Sam Moyer's name was not included in CBRE's mass email invitation to bid; SBD requested Sam Moyer be included in all correspondence 5. Public Notice required bidder to notify CBRE of intent to bid via email, email conversation between CBRE and potential bidder implies that emailed intent to bid was not required 6. CBRE emailed bid proposals with missing documents including a summary of the bids, specification documents, and scoring sheets 7. CBRE responded that there were no scoring sheets, then provided the specification documents and a very basic summary spreadsheet 8. SBD requested a more detailed summary of the bids, SBD ended up creating their own spreadsheet to include all pertinent information 9. CBRE proposed two inappropriate locations, one of which was sent directly to NSP and did not include SBD; one was a house in a residential neighborhood, the other was the 2nd floor of the old post office building 10. Bidders expressed concern that the CBRE fee was increasing their proposed bid amount to NSP 11. CBRE fee was discussed with bidders

AS/SBD Summary of CBRE Services
Through December 2012

65120613 - Kearney	New-Office	1. Request was for 100 sf; Agency requested to partner with ESU; SBD processed new lease 2. CBRE was not involved in this lease
65122105 - Gretna	New-Office	1. Request was for 970 sf in professional building 2. CBRE proposed 2,100 sf space in professional building and 1,400 sf space in another location 3. Agency responded that 2nd proposed lease site was in very poor condition 4. Not known if CBRE fee was discussed
65122616 - Kearney	Renewal-Office	1. Request for 3 yr renewal, including electric, and gas 2. CBRE proposed a renewal to include gas and electric 3. Lessor contacted SBD; upset about CBRE fee, felt that he could no longer be competitive if he had to pay CBRE fee 4. Not known if CBRE fee was assessed.
65122925 - Norfolk fka 65921825	Renewal-Office	1. Request for 5 yr renewal 2. CBRE proposed 5 yr renewal with new lease form; rental rate frozen for first 2 yrs, then resume 2% annual increases 3. SBD prepared new lease form and sent to Lessor, Lessor called SBD and stated that he did not agree to an all-inclusive lease nor the new lease form 4. SBD emailed CBRE to verify that Lessor was agreeable to the new lease form and that Lessor was aware that it was all-inclusive, to which CBRE responded that Lessor had been provided the new lease form and was aware that it was all-inclusive 5. SBD is now working with the Lessor to incorporate all costs and the new lease form 6. Not known if CBRE fee was discussed.
CBRE		1. Incorrect CA# used in subject line and email content was for another contract 2. After asking for verification, CBRE stated that the CA# was correct 3. SBD review Harbor Flex software and found that it could not be manipulated to meet needs of SBD 4. CBRE emailed incorrect account information "no such" person at Harbor Flex 5. There was no disclosure of CBRE fees collected or discussed regarding any of the above leases 6. In most cases, CBRE contacted the Lessor via telephone rather than site visit 7. CBRE did not provide analysis of market rates 8. CBRE did not provide detailed minutes of meetings with parties to the new lease.

CBRE Lease Negotiation Comparison

25-Mar-13

CA-65070883 - Game & Parks, Lincoln

Year	SBD Projected Increases For Contract Negotiated by CBRE. (Projections Based on % Increase In Previous Contract)	% Change	CBRE Negotiated Rate	% Change	CBRE Comparison	% Change	CBRE 6% Lessor Fee To Be Passed On To State of Nebraska	Additonal Cost to the State of Nebraska
Year 1 Office	$19,431.00	0.00%	$19,830.00	2.00%	$20,013.93	0.93%		
Year 2 Office	$19,431.00	0.00%	$19,830.00	0.00%	$20,614.35	3.00%		
Year 1 Storage	$11,321.75	0.00%	$11,321.75	0.00%	$11,661.40	3.00%		
Year 2 Storage	$11,321.75	0.00%	$11,548.19	2.00%	$11,894.63	3.00%		
Totals	$61,505.50		$62,529.94		$64,184.31		$3,727.86	$3,727.86

Notes: The rates CBRE used for comparison purposes are theoretical and not rates SBD would have considered or agreed to as is evidenced by the rates negotiated on the prior lease. The CBRE comparison column indicates they negotiated a 3% increase to a 2% increase, when in fact history shows no previous increases to the lease. Additionally, CBRE failed to account for the 6% +/- brokers fee.

CA-65921825 - Health and Human Services, Norfolk

Year	SBD Projected Increases For Contract Negotiated by CBRE. (Projections Based on % Increase In Previous Contract)	% Change	CBRE Negotiated Rate	% Change	CBRE Comparison	% Change	CBRE 6% Lessor Fee To Be Passed On To State of Nebraska	Additonal Cost to the State of Nebraska
Year 1	$173,064.73	2.00%	$169,671.30	0.00%	$173,064.73	2.00%		
Year 2	$176,526.02	2.00%	$169,671.30	0.00%	$176,526.02	2.00%		
Year 3	$180,056.54	2.00%	$173,064.73	2.00%	$180,056.54	2.00%		
Year 4	$183,657.67	2.00%	$176,526.02	2.00%	$183,657.67	2.00%		
Year 5	$187,330.83	2.00%	$180,056.54	2.00%	$187,330.83	2.00%		
Totals	$900,635.79		$868,989.89		$900,635.79		$52,139.39	$52,139.39

Notes: The CBRE negotiated lease is reflective of what SBD could have negotiated and does not include any lessor improvements which have been requested by the agency. Additionally, CBRE failed to account for the 6%+/- brokers fee.

CA65021223 - Labor, North Platte

Year	SBD Projected Increases For Contract Negotiated by CBRE. (Projections Based on % Increase In Previous Contract)	% Change	CBRE Negotiated Rate	% Change	CBRE Comparison	% Change	CBRE 6% Lessor Fee To Be Passed On To State of Nebraska	Additonal Cost to the State of Nebraska
Year 1	33,635.32	1.70%	33,073.08	0.00%	$34,065.27			
Year 2	34,207.12	1.70%	33,073.08	0.00%	$34,065.27	0.00%		
Year 3	34,891.27	2.00%	$34,065.27	3.00%	$35,087.23	3.00%		
Year 4	35,763.55	2.50%	$35,087.23	3.00%	$36,139.85	3.00%		
Year 5	36,836.45	3.00%	$36,139.85	3.00%	$37,224.04	3.00%		
Totals	175,333.71		$171,438.51		$176,581.66		$10,286.31	$10,286.31

Notes: The rates CBRE used for comparison purposes are theoretical and not rates SBD would have considered or agreed to as is evidenced by the rates negotiated on the prior lease. Additionally, CBRE failed to account for the 6% +/- brokers fee.

It is important to note that the above numbers do not take into account variables that impact lease negotiations including market conditions, availability of space in a community, the expense of improving current or new space, etc.

CA# / CITY	NEGOTIATED IMPROVMENTS AT			CURRENT	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	5 YEAR SAVINGS
65080031	NO-COST TO LESSEE:	**Original Terms:**	3% Annually	$31,680.00	$32,630.40	$33,609.31	$34,617.59	$35,656.12	$36,725.80	
Lincoln	New carpet throughout office	**Negotiated Terms:**	No increases		$31,680.00	$31,680.00	$31,680.00	$31,680.00	$31,680.00	
					$950.40	$1,929.31	$2,937.59	$3,976.12	$5,045.80	**$14,839.23**

CA# / CITY				CURRENT	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	5 YEAR SAVINGS
65932116		**Original Terms:**	3.5% Annually	$24,024.00	$24,864.84	$25,735.11	$26,635.84	$27,568.09	$28,532.98	
Norfolk		**Negotiated Terms:**	2% after Year 1		$24,024.00	$24,504.48	$24,994.57	$25,494.46	$26,004.35	
					$840.84	$1,230.63	$1,641.27	$2,073.63	$2,528.63	**$8,315.00**

CA# / CITY	NEGOTIATED IMPROVMENTS AT			CURRENT	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	5 YEAR SAVINGS
65060819	NO-COST TO LESSEE:	**Potential Increases of 2% Annually:**		$35,376.00	$36,083.52	$36,805.19	$37,541.29	$38,292.12	$39,057.96	
Kearney	Purchase and installation of	**Negotiated Terms:**	No increases		$35,376.00	$35,376.00	$35,376.00	$35,376.00	$35,376.00	
	security system				$707.52	$1,429.19	$2,165.29	$2,916.12	$3,681.96	**$10,900.09**

CA# / CITY				CURRENT	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	5 YEAR SAVINGS
65103223		**Potential Increases of 2% Annually:**		$11,410.00	$11,638.20	$11,870.96	$12,108.38	$12,350.55	$12,597.56	
Lexington		**Negotiated Terms:**	No increases		$11,410.00	$11,410.00	$11,410.00	$11,410.00	$11,410.00	
					$228.20	$460.96	$698.38	$940.55	$1,187.56	**$3,515.66**

CA# / CITY				CURRENT	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	5 YEAR SAVINGS
65960323		**Potential Increases of 2% Annually:**		$13,200.00	$13,464.00	$13,733.28	$14,007.95	$14,288.10	$14,573.87	
Alliance		**Negotiated Terms:**	No increases		$13,200.00	$13,200.00	$13,200.00	$13,200.00	$13,200.00	
					$264.00	$533.28	$807.95	$1,088.10	$1,373.87	**$4,067.20**

Total Savings **$41,637.16**

It is important to note that over 80% of commercial leases negotiated by SBD have rental rates below the industry average.

Exhibit 7

CBRE Evaluation of Pilot

Savings Comparison

CA-65070883 - Game & Parks (Lincoln)

	New Terms	Original Terms
2013 (office)	$ 19,431.00	$ 20,013.93
2014	$ 19,830.00	$ 20,614.35
	$ 39,261.00	$ 40,628.28
		$ 1,367.28

2013 (storage)	$ 11,321.75	$ 11,661.40
2014	$ 11,548.19	$ 11,894.63
	$ 22,869.94	$ 23,556.03
		$ 686.10

$ 2,053.38 Total Savings

CBRE
CB RICHARD ELLIS

Savings Comparison

CA-65921825 - Health & Human Services (Norfolk)

	New Terms	Original Terms		
2013	$ 169,671.30	$ 173,064.73		
2014	$ 169,671.30	$ 176,526.02		
2015	$ 173,064.73	$ 180,056.54		
2016	$ 176,526.02	$ 183,657.67		
2017	$ 180,056.54	$ 187,330.83		
	$ 868,989.89	$ 900,635.78	**$ 31,645.90**	**Total Savings**

1/10/2013

Savings Comparison

CA-65021223 - Department of Labor (North Platte)

	New Terms	Original Terms		
2013	$33,073.08	$ 34,065.27		
2014	$33,073.08	$ 34,065.27		
2015	$ 34,065.27	$ 35,087.23		
2016	$ 35,087.23	$ 36,139.85		
2017	$ 36,139.85	$ 37,224.04		
	$ 171,438.51	$ 176,581.67	**$ 5,143.16**	**Total Savings**

Savings Comparison

Indirect Costs

	Description	Time	Value
Site Visits	Two CBRE brokers travel to Broken Bow	12 hours x 2 people	
Site Visits	Two CBRE brokers travel to Broken Bow	12 hours x 2 people	
Site visits	Two CBRE brokers travel to Kearney	8 hours x 2 people	
Site Visits	Two CBRE brokers show space in Gretna	2 hours x 2 people	

Total Hours = 68 hours