



Facilities Management Exploration Business Justification

Senate State and Local Government Committee
March 8, 2016

The Big Picture

- Historically, state revenues have not kept up with increasing costs, with TennCare and education programs being the most expensive
- Real estate is one of the state's largest expenses with annual costs of approximately \$550 million including energy
- The state is exploring whether there is significant enough savings through contract managed service providers to acquire more services at a lower cost than state managed facilities
- Benefits include lower taxpayer costs for building management, and allow state to focus on vital services for citizens and managing a contract, and let professional contract service providers manage buildings

Facilities Management Exploration

Guiding Principles

To guide the efforts of all involved in the state's Facilities Management exploration, the following guiding principles have been adopted, and are listed in order of priority with the welfare employees being top priority:

- 1. Demonstrate regard for the welfare of current facilities services employees;**
2. Seek expertise, efficiency, innovation, and quality in the services to be provided; and
3. Be a good steward of taxpayer resources and their buildings.

Actions to Date

Facilities Management Project Team

Stakeholders represented on Core Team and Steering Committee include Tennessee Board of Regents, University of Tennessee, Central Procurement Office, Dept. of General Services, Office of Customer Focused Government



Formed
Facilities
Management
Core Team and
Steering
Committee



Performed a
business
justification
analysis to
explore
opportunities
in contract
managed
services



Developed a
procurement
strategy to
gather
information



Defined
requirements
for third
party to
perform
validation of
business
justification

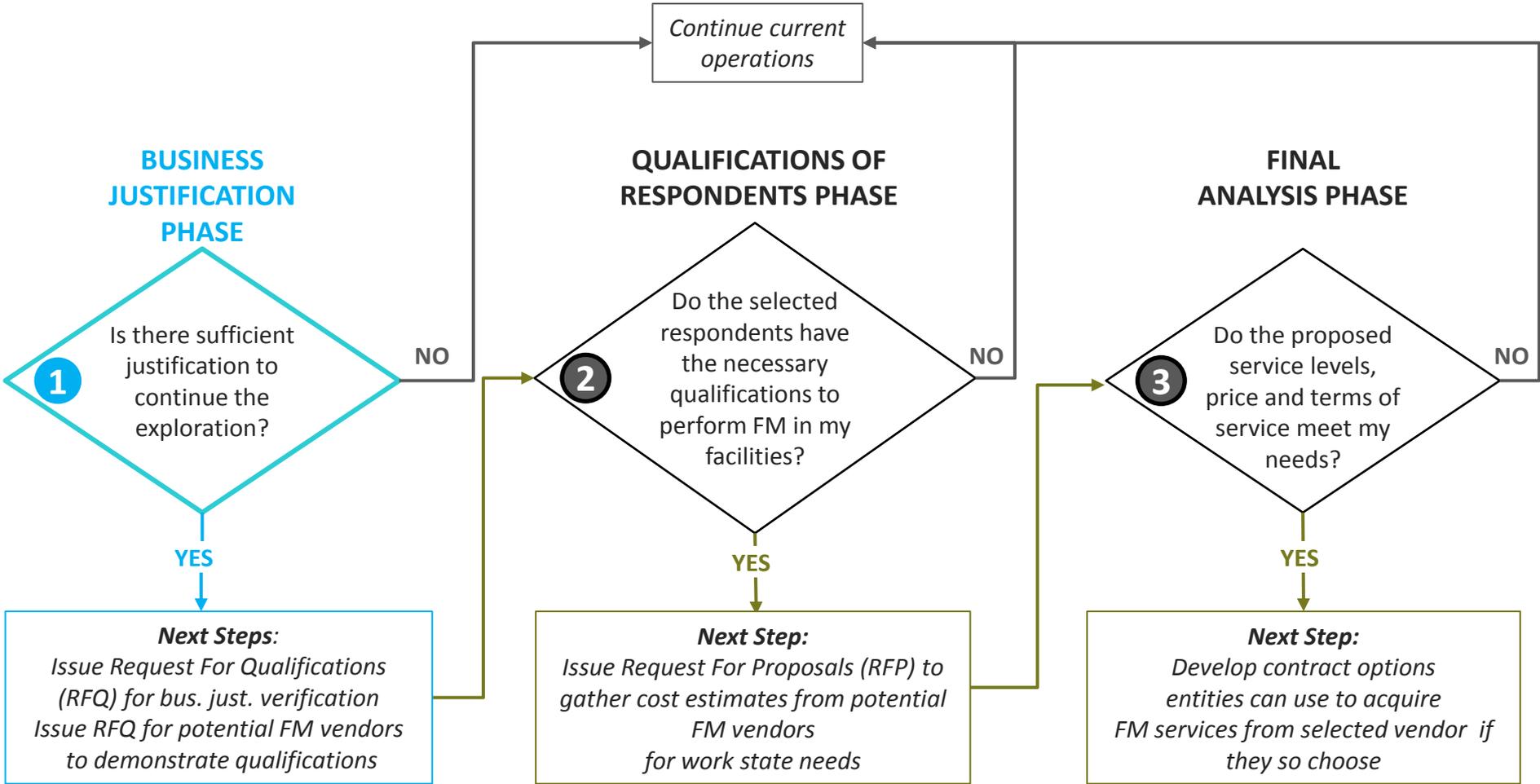


Defined
requirements
for qualified
facility
management
respondents

Facilities Management Exploration includes gathering information needed to understand if there is significant enough savings through contract managed service providers

Overview: Exploration Phases

Procurements help state gather information needed to evaluate options



Components of Business Justification

Facilities Management business justification explores four key areas - exploration includes gathering information needed to understand if there is significant enough savings through contract managed service providers

Cost avoidance / savings State of TN achieved through current contract service provider

Tennessee
General
Government
Experience

Texas A&M
University
Experience

Cost avoidance / savings Texas A&M achieved through contract service provider across its system

Business
Justification

Assessment of contract service providers that could potentially assist state with facilities management

Market
Strength
Assessment

Potential
Savings

Results of potential savings state could achieve through contract managed service provider approach based on industry benchmark analysis

Tennessee General Government Experience

Current FM - Cumulative Savings & Cost Avoidance

Annual Cost Savings vs. Original \$36.9M Baseline

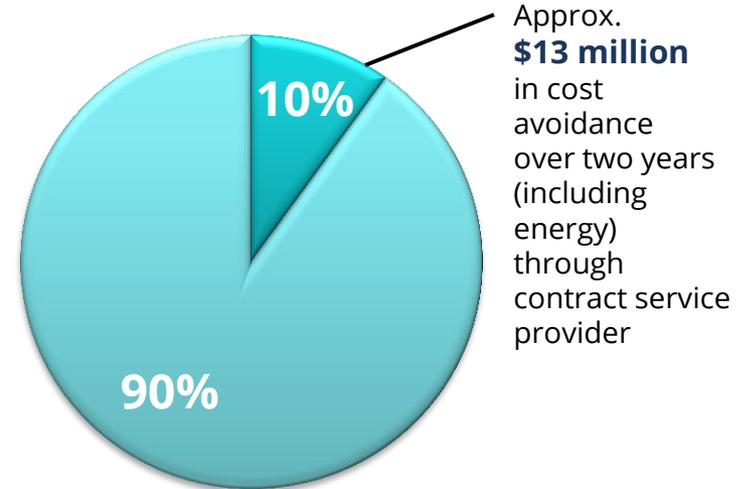
	FY 2014		FY 2015		
Labor	\$ 1.93	39%	\$ 1.56	27%	
Lower Sub-Contracting	2.08	42%	2.22	38%	} 73%
Procurement Efficiencies	0.96	19%	2.05	35%	
	\$ 4.97*		\$ 5.82*		

* Does not include \$2.13 million in energy savings, or an additional \$6.5 million investment over two years for work that would otherwise have become additional deferred maintenance.

Where do the savings come from?

More than half of savings is from increased employee training which lowers sub-contracting costs, and from reduced acquisition costs due to scale FM vendor provides.

TN Real Estate Portfolio



General government properties represent ~10% of state's total real estate portfolio.

Exploration looks at whether there are similar cost avoidance opportunities in the remaining 90% of state's facilities.

Savings attained were made possible through training, tools and scale provided by professional FM service providers

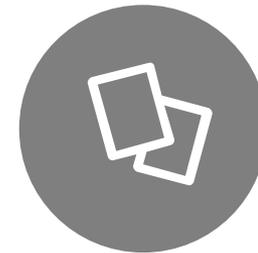
Market Strength Assessment



Request for Information (RFI)
issued August 10, 2015



The state was pleased with the
level and detail of responses



Based on the RFI responses,
a competitive response to a
solicitation is highly likely

Texas A&M University Experience

Representatives from TN Facilities Management team visited with Texas A&M officials on how they implemented a total system approach to contract service provider management of its facilities across the university system

- **Benefits:**
 - Increased control
 - Greater accountability and performance
 - Customized award winning programs
 - Service levels equal to or better
- **Results** (Projected Annual Savings/Cost Avoidance):
 - Flagship and Agencies = \$13.5 million
 - Regional Campuses = \$7.7 million
 - **Total Annual = \$21.2 million**

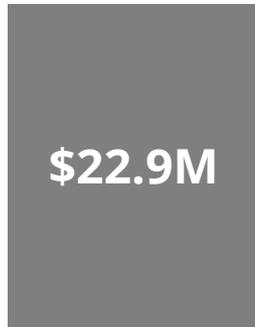


Potential Savings

Benchmark
Results



Year 1



Estimated savings
set aside to protect
all employees



Estimated
implementation
costs (Year 1 only)



**Year 2
And
Beyond**



Based on benchmark analysis using data from state facilities, there is a potential recurring annual savings of approximately \$35.8 million through a contract service provider approach

Potential Savings: Benchmarking Analysis

What would the actual cost for each agency/institution need to be to match the state's current FM experience of 32%?

Institution	Current \$/GSF	Industry ¹ Benchmark Index (\$/GSF)	% of Industry Benchmark Index	Potential Annual Savings (if state were to achieve same Industry Benchmark % as Gen Govt Portfolio)	
General Government (Current FM - DGS Portfolio)	2.26	7.06	32.0%	Benchmark	Adjusted <i>for Savings to Protect Employees</i>
UT System	3.29	7.92	41.5%	\$17.3M	\$10.6M
TBR Universities	2.76	6.23	44.2%	\$17.8M	\$10.9M
TBR Community Colleges	3.27	6.41	50.9%	\$8.7M	\$5.3M
TBR TCAT's	2.90	6.34	46.8%	\$2.3M	\$1.4M
Remaining General Government	Annual savings estimated by applying savings achieved under current contract			\$12.7M	\$7.7M²
TOTAL				\$58.8M	\$35.8M

¹**Source:** Whitestone Facility Operations Cost Reference. An industry recognized tool for benchmarking the cost of facility management and maintenance; assumes all needed maintenance is performed at the appropriate time.

²Remaining General Government may not get this savings right away, as they will likely improve service rather than taking full savings, at least in first year or two.

Information Gathering

Preliminary Schedule of State Procurements

Preliminary Procurement Steps

Calendar Year	2016										2017			
	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Business Justification Validation	Request for Qualifications			Perform Validation										
Contract Procurement		Request for Qualifications				Collaborative Value Development			Request for Proposals		Potential Contract Award	State Entities could begin using Contract		

Procurement process the state must follow through the Central Procurement Office in order to gather the necessary information to make an informed decision

- **Business Justification Validation**

- *Request for Qualifications* for independent third party to **verify/validate** business justification cost analysis
- *Engagement* schedule for third party to **perform validation**

- **Contract Procurement**

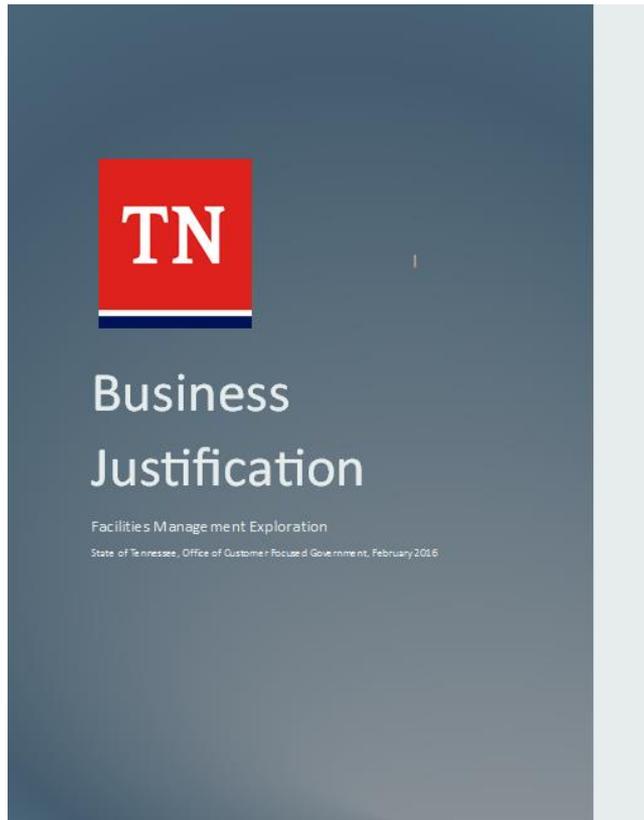
- *Request for Qualifications* (open solicitation) to understand **qualifications of potential service providers**
- *Collaborative Value Development (CVD)* process to use qualified respondents expertise to **understand best practices**
- *Request for Proposals* to **gather cost proposals** from potential service providers
- *Potential Contract Award* to **select professional contract service provider(s)** to perform facilities management
- *State entities could begin using contract* to use FM service provider to perform work **if they so choose**

Potential Contract To Protect Current FM Employees; Agencies/Campuses Make Final Decision

- Any contract that would be signed by a contract service provider will include strict language on prohibiting them from initiating any reduction in force at any time during the duration of the contract period. Thus no current qualified and productive facilities management employee will lose their job as a result of a contract
- The various state agencies/higher education campuses have been and will continue to be included in the entire process to make sure that the ultimate service provider bidders have the qualifications and the experience to deliver quality facilities maintenance services
- The various state agencies/higher education campuses will still have the option to opt-out even after all state costs are validated, all proposals are received and the final comparison of validated state costs compared to proposed service provider costs is complete
- The final decision to proceed with using the services of a professional contract service provider for facilities management belongs to the agencies and campuses, which will be responsible for justifying their decisions to their own local leadership and various boards

Business Justification Report Contents

Available Online on SEREM Website



Executive Summary

Overview

Project Governance

Intent Of Facilities Management Initiative

Exploration Project Phases

- Business Justification Phase

- Qualification Of Respondents Phase

- Final Analysis Phase

Business Justification Results

1. Tennessee General Government Experience
2. Market Strength Assessment
3. Texas A&M University System Experience
4. Potential Savings Analysis

Summary of Business Justification Findings

Appendices

<http://www.tn.gov/serem/section/facilities-management>