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.
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.
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

BUSINESS JUSTIFICATION PHASE

Is there sufficient justification to continue the exploration?

YES

Next Steps:
Issue Request For Qualifications (RFQ) for bus. just. verification
Issue RFQ for potential FM vendors to demonstrate qualifications

NO

QUALIFICATIONS OF RESPONDENTS PHASE

Do the selected respondents have the necessary qualifications to perform FM in my facilities?

YES

Next Step:
Issue Request For Proposals (RFP) to gather cost estimates from potential FM vendors for work state needs

NO

FINAL ANALYSIS PHASE

Do the proposed service levels, price and terms of service meet my needs?

YES

Next Step:
Develop contract options entities can use to acquire FM services from selected vendor if they so choose

NO
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 achieved through contract service provider across its system.

- **Market Strength Assessment**
  - Assessment of contract service providers that could potentially assist state with facilities management.

- **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

<table>
<thead>
<tr>
<th></th>
<th>FY 2014</th>
<th>FY 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Labor</strong></td>
<td>$1.93</td>
<td>$1.56</td>
</tr>
<tr>
<td><strong>Lower Sub-Contracting</strong></td>
<td>2.08</td>
<td>2.22</td>
</tr>
<tr>
<td><strong>Procurement Efficiencies</strong></td>
<td>0.96</td>
<td>2.05</td>
</tr>
</tbody>
</table>

- **Labor**: 39% decrease to 27%
- **Lower Sub-Contracting**: 42% decrease to 38%
- **Procurement Efficiencies**: 19% increase to 35%

$\text{Cost Savings} = \text{Original Cost} - \text{Reduced Cost}$

- $\text{Cost Savings} = $4.97$ for FY 2014
- $\text{Cost Savings} = $5.82$ for FY 2015

*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.

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

**TN Real Estate Portfolio**

- **10%** of state’s total real estate portfolio represents General government properties.
- **90%** of state’s facilities remain to be explored for similar cost avoidance opportunities.

Approx. $13 million in cost avoidance over two years (including energy) through contract service provider.

**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.**
Market Strength Assessment

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.

Request for Information (RFI) issued August 10, 2015
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**
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%?

<table>
<thead>
<tr>
<th>Institution</th>
<th>Current $/GSF</th>
<th>Industry(^1) Benchmark Index ($/GSF)</th>
<th>% of Industry Benchmark Index</th>
<th>Potential Annual Savings (if state were to achieve same Industry Benchmark % as Gen Govt Portfolio)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government</td>
<td>2.26</td>
<td>7.06</td>
<td>32.0%</td>
<td>Benchmark</td>
</tr>
<tr>
<td>UT System</td>
<td>3.29</td>
<td>7.92</td>
<td>41.5%</td>
<td>$17.3M</td>
</tr>
<tr>
<td>TBR Universities</td>
<td>2.76</td>
<td>6.23</td>
<td>44.2%</td>
<td>$17.8M</td>
</tr>
<tr>
<td>TBR Community Colleges</td>
<td>3.27</td>
<td>6.41</td>
<td>50.9%</td>
<td>$8.7M</td>
</tr>
<tr>
<td>TBR TCAT’s</td>
<td>2.90</td>
<td>6.34</td>
<td>46.8%</td>
<td>$2.3M</td>
</tr>
<tr>
<td>Remaining General Government</td>
<td></td>
<td>Annual savings estimated by applying savings achieved under current contract</td>
<td></td>
<td>$12.7M</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td></td>
<td>TOTAL $58.8M</td>
</tr>
</tbody>
</table>

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.

2. **Remaining 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

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mar</td>
<td>Apr</td>
</tr>
<tr>
<td>Business Justification Validation</td>
<td>Request for Qualifications</td>
<td>Perform Validation</td>
</tr>
<tr>
<td>Contract Procurement</td>
<td>Request for Qualifications</td>
<td>Collaborative Value Development</td>
</tr>
</tbody>
</table>

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.
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