



# **Strategies for Efficiency in Real Estate Management & Facilities Management Update**

Fiscal Review Committee  
May 11, 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
- Strategies for Efficiency in Real Estate Management (SEREM) is a project managed by the Office of Customer Focused Government in the Department of Finance and Administration to explore saving in real estate operations
- 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

# Alternative Workplace Solutions

**Opportunity:** Increase workforce productivity while reducing real estate needs and costs through flexible schedule and workspace options

**Savings:** Two agencies have already experienced as much as 50 percent reductions in real estate costs

**Status:** Currently, 12 cabinet-level departments engaged in various stages of AWS pilots and we continue to receive requests from agencies interested in being included



# EmPower TN (Energy Management)

**Opportunity:** Reduce energy consumption and costs across state-owned and managed facilities

**Savings:** The state's \$28.1 million investment in energy-saving projects will produce an estimated savings of about \$4 million annually for as many as 20 years

**Status:** A total of 22 of 30 energy efficiency projects fully approved by the State Building Commission. EmPower TN is also working toward a statewide energy management system to manage the state's more than 7,000 monthly utility bills

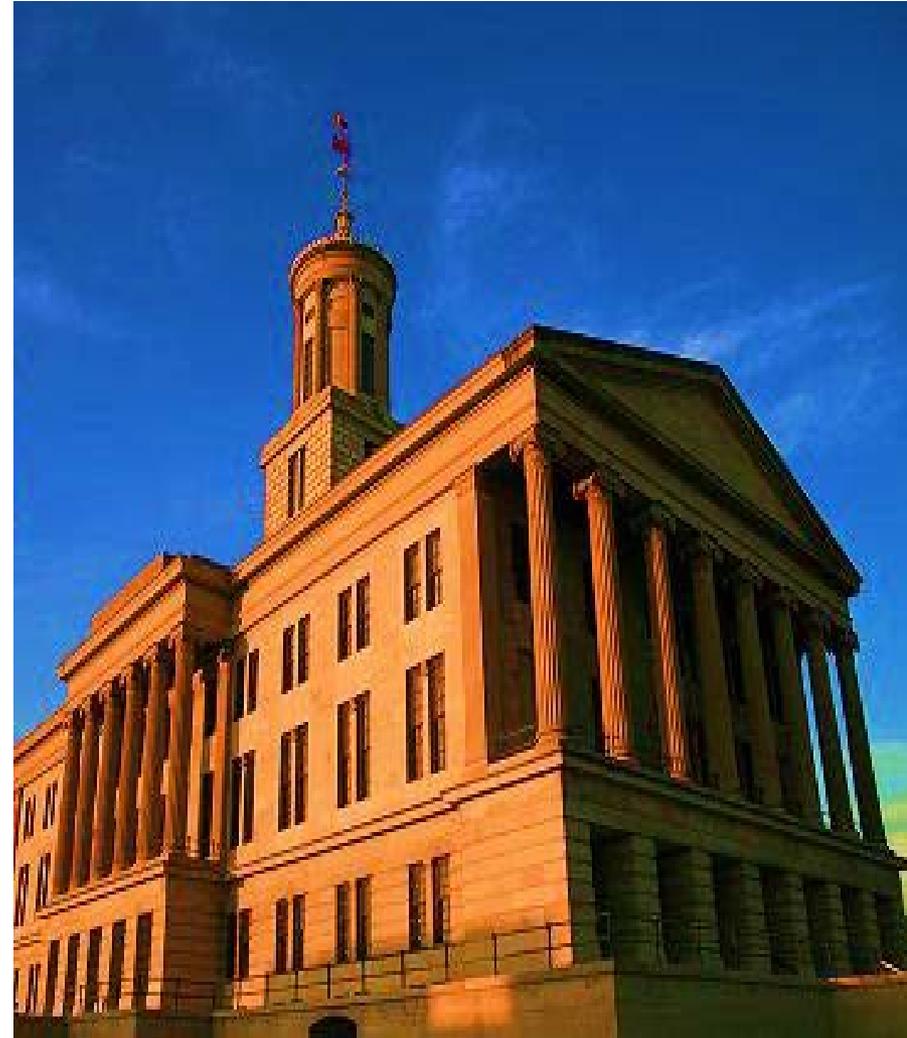


# Real Estate Process Improvement

**Opportunity:** Streamlining real estate processes related to construction, leasing, acquisition and other property management activities

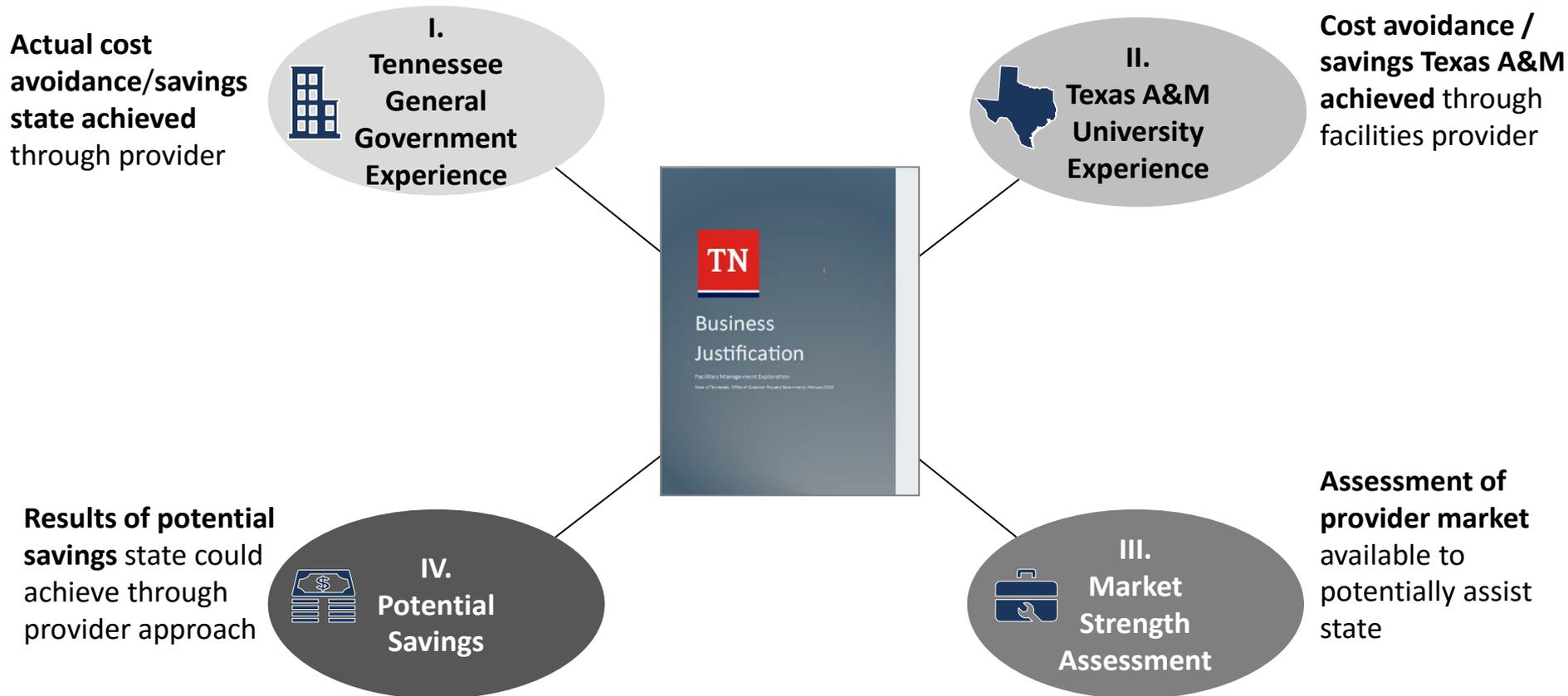
**Savings:** Lower costs for Tennessee taxpayers and streamline real estate processes without sacrificing oversight

**Status:** Recommendations include process improvements to enable enterprise reporting, better management of construction processes, vendor performance measurements, and allowing general maintenance to be performed more expediently



# Facilities Management

A comprehensive business justification report developed to capture research and analysis performed to explore whether acquiring services through a facilities management provider offers improved care and maintenance at state facilities at a lower cost to taxpayers. Four key areas explored include:



# FM Exploration Guiding Principles



To guide the efforts of all involved in the exploration process, the following guiding principles were adopted, and are listed in order of importance 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.

# Workforce Protections



## Workforce Protections

Any contract with an FM services provider will require them to offer **employment to all current FM services state employees** who pass background checks, verification of work authorization, and drug testing

### Hiring Guarantee

Language included in procurement documents clearly communicate **workforce protections**

### Funding Source

Business justification analysis includes **cost set-aside** for state to protect current FM employees

### Transition Priority

State will give **important consideration** to a respondent's proposed **transition of the workforce**

### Compensation/Benefits

Compensation **will not be less** than a state employee's current salary and benefits

### Contract Terms

**No reductions in force** at any time during the term of the contract

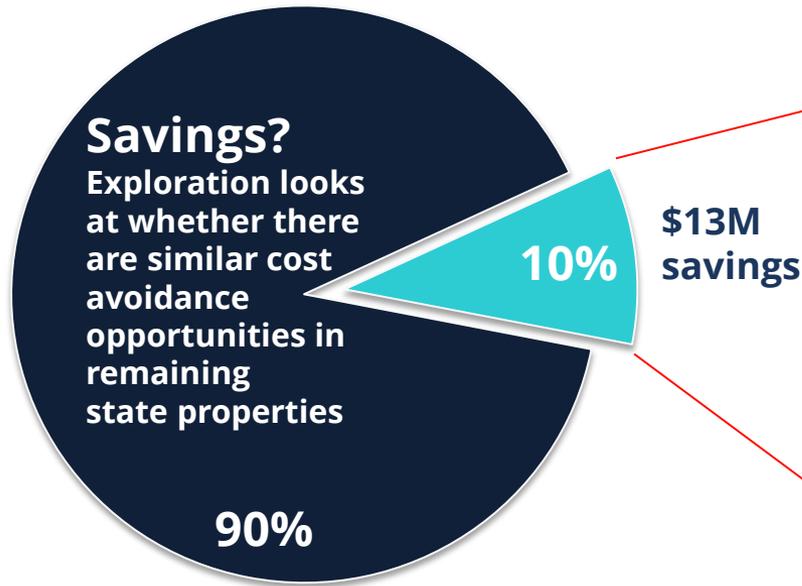


# I. TN General Government Experience



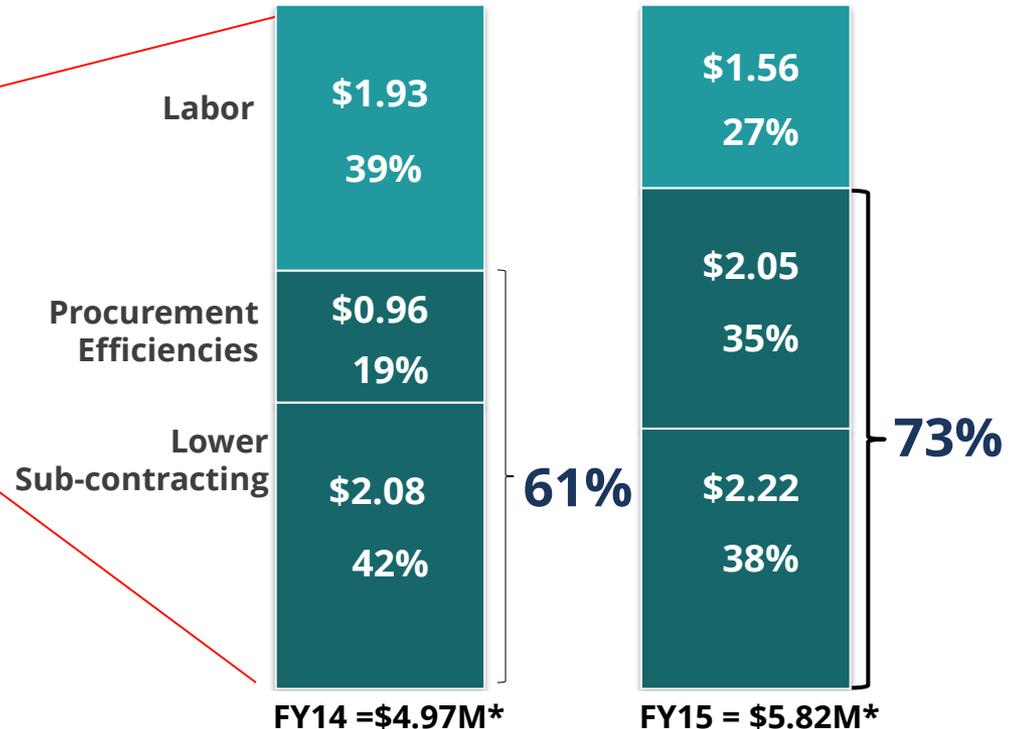
**\$13 million in taxpayer savings** (including \$2.13M in energy) at 10% of state properties through FM service provider over two years

## Tennessee Real Estate Portfolio



## Where do the savings come from? (\$M / % by category)

Annual Cost Savings vs. Original \$36.9M Baseline



**More than 60% of savings from scale, increased employee training/certifications (i.e. electrical, HVAC, plumbing) and tools FM vendor provides**

*\*Note: Total annual savings do not include an additional \$6.5 million investment for work that would otherwise have resulted in additional deferred maintenance.*

# Example: Lower Sub-contracting Costs



**Issue:** Ceiling **lamp fixtures** in need of repairs to wiring and other loose parts

**Estimate:** Local company quoted **\$16,000** to remove fixtures, perform the repairs, and then reinstall over **three to six weeks**

**Savings:** State Capitol team utilized their **electrical training** to **self-perform** the work, **completing it in three days**, **saving taxpayers \$15,500**



# Example: Procurement Efficiencies

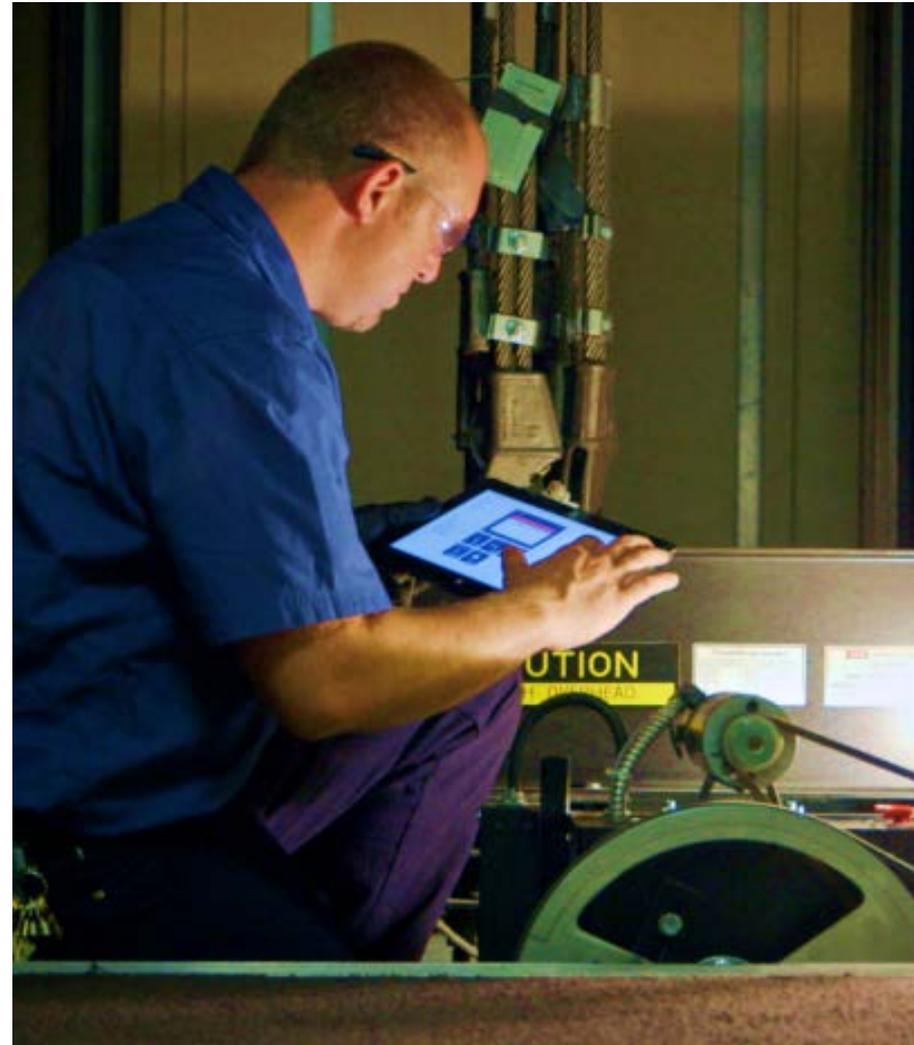


State of Tennessee FM vendor leveraged a multi-client bid process for **elevator maintenance**

As a result of this process, the FM provider **saved Tennessee taxpayers** an estimated **\$125,000 annually**

In addition to the cost savings, the work was awarded to **a local Tennessee supplier**

*These are just two of many examples*



# II. Texas A&M University Experience



Representatives from FM governance visited Texas A&M to learn from officials how they implemented a system-wide approach of a facilities management service provider

## Key Drivers

- Significant state budget cuts
- Focus on core mission (education and research)
- Improved quality
- Reinvest savings into key areas of academic mission and establish sustainable business model
- Deferred maintenance

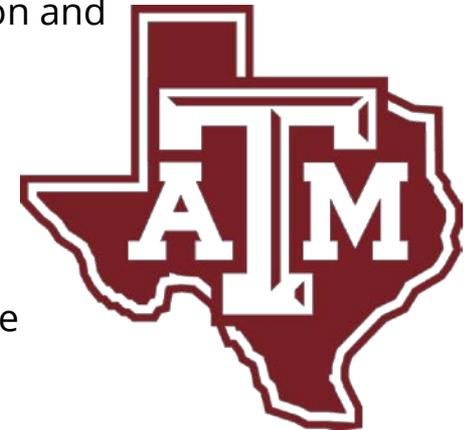
## Benefits

- Increase control
- Greater accountability and performance
- Customized award winning programs that enhance Texas A&M brand
- Service levels same or better

## Results

*(Projected annual savings/cost avoidance)*

- \$13.5 million – Flagship/Agencies
- \$7.7 million – Regional Campuses
- **\$21.2 million** – Total Annual Savings



# III. 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

# IV. Potential Savings



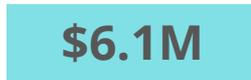
Benchmark Results



**Year 1**



Estimated savings set aside to protect all employees



Estimated implementation costs (Year 1 only)



**Year 2 And Beyond**



Based on benchmark analysis data, there is a potential recurring annual savings of approximately \$35.8 million projected through FM 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%?**

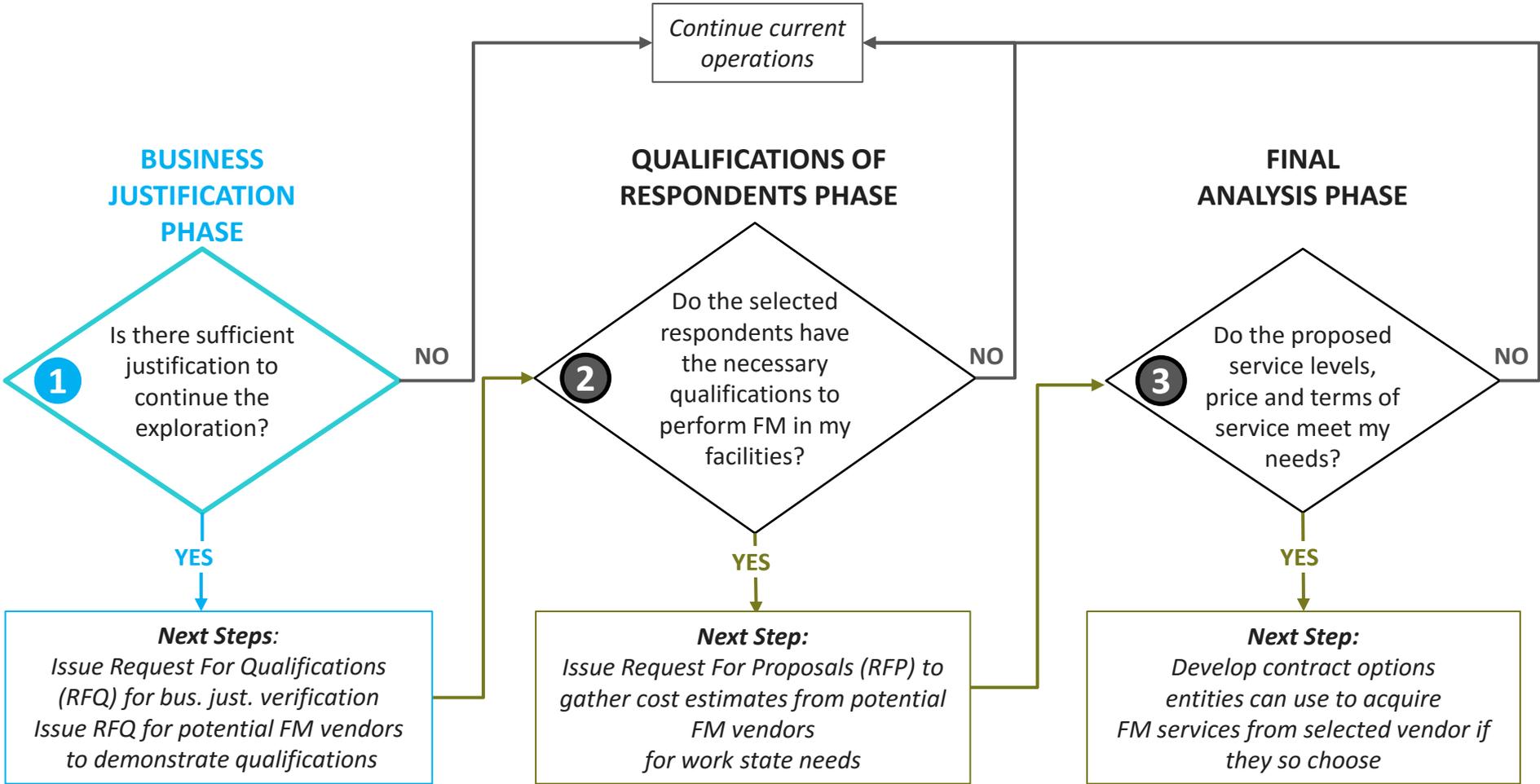
Institution	Current \$/GSF	Industry <sup>1</sup> Benchmark Index (\$/GSF)	% of Industry Benchmark Index	Potential Annual Savings (if state were to achieve same Industry Benchmark % as Gen Govt Portfolio)	
General Government (Current FM - DGS Portfolio)	<b>2.26</b>	<b>7.06</b>	<b>32.0%</b>	Benchmark	<b>Adjusted</b> <i>for Savings to Protect Employees</i>
UT System	3.29	7.92	41.5%	\$17.3M	<b>\$10.6M</b>
TBR Universities	2.76	6.23	44.2%	\$17.8M	<b>\$10.9M</b>
TBR Community Colleges	3.27	6.41	50.9%	\$8.7M	<b>\$5.3M</b>
TBR TCAT's	2.90	6.34	46.8%	\$2.3M	<b>\$1.4M</b>
Remaining General Government	Annual savings estimated by applying savings achieved under current contract			\$12.7M	<b>\$7.7M<sup>2</sup></b>
<b>TOTAL</b>				<b>\$58.8M</b>	<b>\$35.8M</b>

<sup>1</sup>**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.

<sup>2</sup>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.

# Overview: Exploration Phases

Procurements help state gather information needed to evaluate options



# Information Gathering

## 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														
Contract Procurement														

Procurement process the state must follow through the Central Procurement Office in order to gather the necessary information to make an informed decision. Check marks denote activities in process.

- **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**

# Resources



## Business Justification Report

Detailed document that includes a compilation of the exploration governance, methodology and findings of the business justification potential cost savings analysis



## Cost Analysis Data Sheets

Source data documents compiled and provided by higher education institutions and the state that determines their benchmarks



## Presentations

Presentations by CFG Director Terry Cowles before legislative committees



## Workforce Protections

Information on current facility management employee protections issued by the state, TBR and UT system

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