



May 5, 2017

Senator Janice Bowling
16th Senatorial District
310A War Memorial Building
Nashville, TN 37243

RE: Request for Economic Impact Statement – Facilities Management Services Contract

Dear Senator Bowling:

This letter is in response to your request for an economic impact statement concerning a proposed Facilities Management Services contract (RFP No. 32110-17103) (the “Contract”), pursuant to Tenn. Code Ann. § 4-33-104. I appreciate the opportunity to explain the ways in which the Contract will impact the State, its employees, its taxpayers, and everyone who uses its facilities. At the outset, I would note that the full economic impact of the Contract depends upon the number of agencies and higher education institutions that choose to participate, as well as the square footage of their participating buildings and the services they choose, which is information that we do not have at this time.

The Contract is proposed to be entered into between the State of Tennessee, Department of General Services and Jones Lang LaSalle, Inc. (“Contractor”), pursuant to a Request for Proposals for Facilities Management Services (RFP No. 32110-17103). Under the Contract, the Contractor would provide facilities management services to certain state agencies, the legislative branch, the judicial branch, higher education institutions, local government units, and any corporation exempted from taxation under 26 U.S.C. § 501(c)(3) that contracts with the Tennessee Department of Mental Health and Substance Abuse Services (“Authorized Entity” or, collectively, “Authorized Entities”). Authorized Entities electing to participate in the Contract must sign a Participating Addendum (“PA”) with the Contractor and undergo an onboarding process after the PA has been approved, as more fully described in the Contract terms. Contract performance will be closely monitored, and the Contractor will be required to meet or exceed agreed-upon key performance indicators. The source of revenue for this Contract is operating funds from the participating entities, consistent with similar contractual agreements for goods and services. The legal authority for this Contract is Tenn. Code Ann. §§ 4-3-1105, 4-56-104 and 12-3-101.

In managing the State’s property, we strive to provide the best service at the lowest cost to taxpayers, which requires constantly evaluating whether we are taking advantage of available opportunities to improve our services or reduce their cost. Because independently validated analysis, as well as the State’s experience with an existing facilities management contract,

demonstrates that Authorized Entities can better manage their facilities, while substantially reducing management costs, by using a professional facilities manager, the Department of General Services sought to develop a way for them to do so. The Department held a competitive procurement process for facilities managers and negotiated the Contract with the winning respondent, which achieves the aforementioned goals and allows, but does not require, Authorized Entities to participate. Yet, while professional facilities managers provide management expertise and procurement leverage, knowing the value of our employees, it was essential that the Contract require that the facilities manager offer employment to State facilities management employees affected by an Authorized Entity's decision to participate in the Contract. The Contract accomplishes all of these purposes by providing for improved facilities management, at less cost to taxpayers, while protecting State employees.

Authorized Entities that choose to participate in the Contract will be impacted in three ways:

- **Reduced Cost to Taxpayers:** In March 2016, the Department of Finance and Administration's Office of Consumer Focused Government ("CFG") prepared a business analysis that found that the State could save up to \$36 million per year and improve building operations by using a professional facilities manager. An independent public accounting firm, KraftCPAs PLLC, validated CFG's business analysis in accordance with attestation standards established by the American Institute of Certified Public Accountants. During a multi-step procurement process, the Central Procurement Office selected representative properties from five Authorized Entities for purposes of evaluating the respondents' cost proposals. These representative properties comprise 34% of State facilities not currently under contract with a facilities manager, and if all of them participate in the Contract, the State will save an estimated \$155,516,942.12 in facilities management costs over the next ten years (see Attachment), making the Contract the least-cost method for managing facilities. Obviously, if more Authorized Entities participate, the savings would likely be even greater. This estimate is supported by experience: the State saved \$26 million from July 2013 through July 2016 by using the Contractor to manage its general government facilities, including \$6.68 million in energy savings. Such savings are achieved through cost reductions in areas like: (1) procurement, given the increased buying power and volume discounts achieved through use of a professional manager who buys items like cleaning supplies on a much larger scale; (2) improved training and reduced subcontracting, given that a professional manager trains employees to perform tasks like painting, plumbing, roofing, and electrical work, whereas the State currently must subcontract many of these jobs to outside specialists; and (3) improved staffing and organization, given that a professional manager has technology, management, and reporting processes that increase employee efficiency. Under the Contract, similar cost savings are projected through use of the same sort of facilities management, though they are potentially larger in total dollar amount given the square footage involved and will increase in magnitude as additional Authorized Entities, including local governments, participate in the Contract, given the economies of scale that increased

participation creates in terms of purchasing supplies and utilizing employees.

- **Improved Facilities Management:** Like any expert hired to perform a task, professional facilities managers provide numerous benefits, which the State has experienced through its 2013 facilities management contract. In addition to, and in some cases due to, saving taxpayer dollars and improving employee expertise and efficiency, we expect that the Contract will substantially improve the quality of facilities management. The ultimate measure of performance is customer satisfaction, which improved to an astonishing degree once the 2013 facilities management contract was implemented: in December 2016, the facilities managed under the 2013 contract had 98% customer satisfaction, up from 62% in July 2013 when that contract began. This substantial improvement is attributed to the professionalism and responsiveness of an expert in managing facilities, which includes timely and quality repairs, centralized management of services, implementation of industry best practices, and measuring success through agreed-upon performance indicators to ensure quality service. Given that the Contractor is a worldwide expert and the Contract ties compensation to meeting performance standards, we expect to see similar improvement for the facilities that participate in the Contract. Additionally, the Contract was the result of a competitive procurement method and, further, introduces market competition to a function previously performed by the government.
- **Protection of State Employees:** The Contract includes robust protections for State facilities management employees affected by an Authorized Entity's decision to participate. Specifically, the Contract provides that the Contractor must offer employment to all state facilities management employees who work at least thirty hours per week and have at least six months of State service when the Authorized Entity joins the Contract, so long as they pass a standard background check and drug test. Further, that employment must include total compensation at least equal to what the employee is currently earning, recognition of years of State service in administering benefits, and the condition that the employee may only be terminated for cause. In addition, the Contractor may hire any other State employees, whether temporary, seasonal, or otherwise, who are not guaranteed employment under these terms. And as noted, facilities managers invest in training employees for new skills, like painting, plumbing, roofing, and electrical work, so State employees will gain new, more valuable skill sets. In short, we worked to ensure that as many State employees as possible would be able to continue to advance their careers as employees of the Contractor.

Therefore, the economic impact of this Contract is that the Authorized Entities that choose to participate will be able to more efficiently and effectively allocate public resources and manage their facilities by saving millions of dollars and realizing the benefits of professional management, while at the same time protecting their employees. Of course, the extent of such savings and improved management will depend on the number of Authorized Entities that participate, with greater participation increasing both the total dollars saved and the rate of

savings compared to current costs through economies of scale. The individuals who will benefit from this Contract include taxpayers, employees, and all of those that use State facilities. The effect of the Contract on the cost of living in any one geographical area is impossible to determine at this time because it is not yet known which entities will participate in the Contract, but we are confident that the cost of living will remain the same or decrease, given the employee protections included in the Contract and the fact that dollars saved under the Contract will be spent on other needs, which will, for example, allow higher education institutions to keep tuition and fees as low as possible. Further, in terms of local impact, over 90% of the money paid under the 2013 facilities management contract goes to Tennessee businesses or individuals, and a similar percentage is likewise to be expected under the Contract.

I hope that this information is helpful, and please be assured that while this Contract is designed to provide better services at a lower cost, we would not have agreed to it without the inclusion of strict protections for State employees and each Authorized Entity having the ability to determine whether it wishes to participate. This Contract presents a significant opportunity for the State to better manage its facilities, and I appreciate your interest in it.

Sincerely,



Robert E. Oglesby
Commissioner

Attachment:

KraftCPAs PLLC - Independent Accountant's Report on Applying Agreed-Upon Procedures