2014 NASPO Cronin Award Nomination

Innovation in Facilities Management

Submitted on behalf of the Department of General Services (DGS)
Central Procurement Office

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Executive Summary

Project Background: In 2012, the State of Tennessee conducted an assessment of its facilities to perform a Facilities Condition Overview, Energy Audits, and an ongoing Operations and Maintenance Costs Reduction Study. The result of this assessment was that the State portfolio consisted of aged buildings which are expensive to maintain and operate. The assessment also made multiple observations of areas of improvement, one of which was that the State is decades behind in leveraging technology for Facilities Management. Recognizing a responsibility to improve, the State decided it needed to reduce the State's ongoing facility-related operating expenses, identify and prioritize short and long term maintenance projects, as well as plan and operate more efficiently. In order to ensure high quality service standards at a competitive cost, the State looked towards the private sector. On January 22, 2013 the State issued a Request for Qualifications for Comprehensive Facilities Management to select one (1) vendor that could meet the State's needs for comprehensive facilities management services. The State's goal was to create a strategic partnership with a single vendor who would follow "Class A BOMA Standards", which are considered the prevailing standards in measuring buildings for an integrated program of facilities management.

Only one year after implementing an innovative, comprehensive facilities management solution, the State has begun achieving meaningful and sustainable results, which include:

- Improved quality of flexible, timely and responsive services;
- Centralized management of the in-scope services;
- Reduced operating costs;
- Success measured by Key Performance Indicators (KPIs) (*see Attachment 1*);
- Implementation of "best in class" practices (such as quality control, accurate reporting, and strategic sourcing);
- Continuous innovation and leadership resulting in creative solutions; and,
- Scalable solutions that are flexible enough to evolve with the State's need.

The State also expects to continue to work in collaboration with the vendor for innovative and creative solutions that improve service and create savings.

Innovation and Initiative

1. Facilities Management: The first and main objective of this project was to procure a statewide comprehensive facilities management contract, which is in and of itself, innovative in the public sector. To our knowledge, there has never been a statewide initiative of this size and scope. The scope of this project includes the State-owned Facilities Revolving Fund ("FRF") facilities, which contain approximately 6,813,600 gross square feet, and leased FRF facilities of approximately 3,609,903 gross square feet. The State previously delivered services internally and through a broad range of approximately 430 contracts. The FRF facilities will now be controlled and managed through a single vendor

2. Procurement Method: The second objective of this project was to improve the way in which the State of Tennessee procures professional services by utilizing the Request for Qualifications (RFQ) process. For this project the State used a three-tiered process to select the successful vendor:

<u>Tier 1</u> The State evaluated Mandatory Requirements set forth in the RFQ on a pass / fail basis. There were eight (8) items that Respondents were required to provide a response in order to continue to Tier 2. Examples of mandatory requirements included:

- Confirming Call Center access will be made available 24 hours a day/7 days a week
- Confirming that the Respondent will put 50% of the Management Fee, which is a fee based on square feet managed, at-risk based on KPIs (*see Attachment 1*)
- Confirmation that all direct expenses related to subcontractors will be passed through to the State with no mark-ups.

<u>Tier 2</u> The State then invited those who passed the Tier 1 evaluation to give oral presentations to the State. The State applied a standard equitable evaluation model, which included a qualitative assessment of each Respondent's Technical Proposal. The qualitative assessment of each Respondent included information derived from the oral presentation. Evaluators ranked the Respondents' presentations and Technical Proposal by category (*see Attachment 2*) in order to derive a qualitative score for each Respondent. The score assigned was the sum of the rankings, with the lowest score representing the best overall ranking.

<u>Tier 3</u> Following Tier 2 evaluations, the State engaged the Respondents to negotiate cost and finalized contract terms and conditions. During this process the State negotiated cost with both Respondents to the RFQ, but only negotiated Terms and Conditions with the best-evaluated Respondent.

3. Communications: Due to the innovative nature of this procurement one of the challenges that the State experienced was a lack of industry knowledge on the details of contracting for the management of all State facilities. As such, the State reached out to the industry and performed a "pre-response conference" to encourage open discussion among market leaders and the State. During this discussion multiple changes were recommended, and many of those changes were used to improve the scope of services, cost proposal, and terms of the pro forma contract. The success of this event it has revolutionized the way the State approaches "pre-response conferences." This approach to pre-response conferences has created a clearer communication channel between the State and its vendor community. The State currently uses the pre-response conference to receive industry input and advice, which creates more efficient and effective procurements.

Transferability

The program of comprehensive facilities management services and the methods used to procure a contract with a single vendor could be used by any state willing to make a significant change from the status quo in how its real estate assets are managed. As with Tennessee, it is very common for state governments to have a vast portfolio of stated-owned and leased real estate assets. Managing real estate assets in-house requires training, education and experience and can be very labor intensive to manage and coordinate (e.g., managing employees, coordinating activities with the numerous contracts required to maintain facilities, etc.). The Tennessee Department of General Services has already been contacted by many other states who are interested in the outcome of this program. Although the contract itself could not be used by other states, the methodology and work plan could easily be emulated.

Service Improvement

1. **Quality:** State employees now have a much more robust system for requesting service from the facilities management team by using the online service center (*see Attachment 3*). The online service center provides the capability to put in reactive and preventative work orders. When a user requests service, it is automatically given a priority (Normal, Emergency, Routine, etc), which allows the vendor to prioritize its requests appropriately. The employees also benefit as the State's buildings are now maintained at a higher quality level and there are fewer interruptions due to mechanical system failure. From the start of the contract on July 1, 2013 through May, 31 2014, over 30,885 *Reactive* work orders were completed. During the same time period, 4,046 *Preventative* work orders were completed. Through this process, the vendor provided numerous examples of simple maintenance that had been neglected for many years, which affected the quality of State facilities (*see Attachment 4*).
2. **Reporting:** Another added benefit of this program is the transparency created through clear reporting tools that monitor the volume of work, measure customer satisfaction, and identify reductions at each facility. Through this program, the State has worked with the vendor to hold monthly reporting meetings with key personnel from the State and representative of the vendor community. During these meetings, a presentation is given to discuss vendor performance (*see Attachment 5*). These presentations include discussion points about KPIs and allow the State's key stakeholders to view and discuss vendor performance.

Cost Reduction

This contract resulted in immediate and significant cost savings by reducing staff and saving more than $1.7 million per year starting on July 1, 2013. In addition, the new contract has provided more than $2 million in savings by performing work that was previously handled by approximately 100 third-party contracts. These contracts included reactive and proactive facility maintenance that can now be performed by the vendor. Through consolidation and re-sourcing of these contracts, the State has saved over $1 million. The consolidation and re-sourcing included contracts such as security, janitorial, and grounds maintenance, which have been strategically procured using economies of scale and leveraging regional facility portfolios. The start-up implementation costs were approximately $325,000, and the annual cost savings have been achieved in the following key areas:

State payroll cost savings	$1,760,000
Savings by self-performing maintenance work	$2,000,000
Strategic sourcing of subcontract services	$680,000
Approximate First Year Savings	***$4,440,000***
(Estimated) annual energy cost savings	$1,000,000*

Overall the State of Tennessee expects to save more than $4.4 million during the first year of the program and a projected $50 million over the contract period of 5-7 years through continued State payroll cost savings, self-performing maintenance work, strategic sourcing, and future energy cost.

**Actual energy cost savings will not be available until reconciliation of expenditures after fiscal year end*.

Conclusion

This procurement and resulting contract was truly a first of its kind. This is the first time the State of Tennessee has contracted with a company to manage its facilities. This program is and will continue to be successful due to the collaboration between multiple State departments as well as industry leaders. This project is an example of how innovation and creative thinking can manifestly change the *status quo* to improve services and reduce costs.