



STATE OF NORTH CAROLINA
DEPARTMENT OF TRANSPORTATION

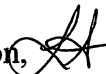
PAT MCCRORY
GOVERNOR

ANTHONY J. TATA
SECRETARY

March 31, 2014

MEMORANDUM

To: The Joint Legislative Commission of Governmental Operations
The Joint Legislative Transportation Oversight Committee

From: Ms. LaNica Allison, 
Deputy Secretary, Assets and Federal Programs

RE: Session Law 2013-245, HB 785
Section 2 Responses

Summary

The contents of this memorandum report the Department's findings in response to HB 785 Section 2 which authorizes the Department "...to study a statewide pilot program for contracted services cost savings for the 2013-2014 budget cycle." The Department initiated a study in August 2013 and a summary of its results follows:

1. Facilities maintenance cost savings have been identified that could exceed HB 785's cost savings goal of 10%;
2. Although the study has generated realistic cost savings opportunities that conform to HB 785, the Department is taking further steps to ensure the scope of the pilot covers the requisite data collection and interpretation needs;
3. The Department is currently establishing strategies for base lining its facilities maintenance costs and enabling a pilot program; and
4. The Department anticipates that it can implement a pilot program to obtain the cost reductions provided for in HB 785. The timeframe for procurement is approximately 6 to 12 months.

Department Responses to HB 785 Section 2

In the above referenced session law HB 785 has authorized the Department to study a statewide pilot program for contracted services cost savings and examine ways to achieve 10% reductions through the procurement of integrated facility service contracts and consolidation into single facility service contracts, where feasible. The Department's study has developed initial cost savings opportunities that could exceed the 10% threshold based on: 1) benchmarking comparable organizations, 2) market analysis, and 3) identification of private sector vendors that could deliver the facility maintenance services listed in Section 2.1-7 of HB 785. This study has identified potential opportunities to reduce contracted service costs across the Department's facilities portfolio within two (2) major groupings:

Group #1 - Conforms to HB 785's direction to reduce facilities maintenance costs:

1. **Recurring facilities management spend** – The Department has studied ways to reduce Operations and Maintenance (O&M) costs through private vendor contracts. Compared to commercial benchmarks and market analysis, opportunities exist for the Department to reduce its facility maintenance costs in excess of the 10% savings goal.
2. **Strategic sourcing** –The Department has investigated ways to reduce contracted services costs by utilizing integrated facility services contracts and the consolidation of contracts that could provide value through greater purchasing power associated with national facilities management vendors.

Group #2 - Includes opportunities that supplement the facilities maintenance cost savings parameters outlined in HB 785:

3. **Portfolio right-sizing** – The Department's study has identified potential opportunities to reduce or eliminate contracted services costs by consolidating operations, reducing and/or optimizing the size of the portfolio more comparably to industry benchmarks.
4. **Alternative long term uses of property** – The findings of the study have also surfaced potential costs savings and/or revenue generation opportunities that could be used to offset the costs of contracted services. Following right-sizing activities, the Department may be able to dispose of excess facilities and real property through sale, lease or sublease.

To date, the Department has proactively investigated ways to reduce contracted service costs across the entire portfolio. During the course of the study the Department has realized that existing practices and data relationships indicate that an additional set of localized facilities maintenance costs may be present. These localized costs potentially create gaps that could limit a full evaluation of the Department's costs. Recognizing this, the Department is taking actions to more fully understand these costs, establish strategies to base line facilities management costs, and develop a pilot program.

Although the study has generated realistic cost savings opportunities that conform to HB 785, the Department is taking further steps to ensure the scope of the pilot covers the requisite data collection and interpretation needs. In order to effectively act upon the study's findings and measure value, the Department will work to further refine cost baselines. Subsequently, the Department plans to procure consolidated contracts with private sector partners, through a pilot program, to realize savings from integrated services. The baseline will serve as the starting point in order to measure value and the pilot program will enable the Department to realize those benefits.

Additional actions are required to position the Department to execute a pilot program that builds on the findings of the report the following timeline is required:

1. **Pre-procurement actions (~2-3 months)** - A market sounding will test the assumptions and analysis of the study, evaluate the marketability of a proposed pilot program and determine the level of interest from private sector partners. The market sounding participants will be asked how they would go about bringing leading practices for contracted services to the Department and how they may deliver the services outlined in Section 2.1-7 of HB 785. Additionally, the participants could suggest other operational areas that the Department may want to consider that might increase the overall value of the study. With this understanding, the Department will establish strategies for base lining facilities management data which will inform future cost savings analysis from a pilot program.
2. **Procurement actions (~3-6 months)** – With insight and knowledge from the market sounding, the Department will be able to draft performance specifications that clearly outline service level expectations. The service levels will be consistent across the portfolio of contracted services in order to provide all Divisions with appropriate support. The Department will then draft procurement documents in order to competitively market a pilot program to the private sector.
3. **Select preferred vendor (~2-4 months)** – Upon completion of the procurement, the Department will select the vendor that can provide the requisite contracted services and provides the greatest value. The vendor's performance (Cost savings to the Department) will be measured against the established baselines and in accordance with the agreed upon performance specifications.

To conclude, the Department's current study has provided an attainable path forward to align with the intent of HB 785 and reduce contracted service costs in excess of the stated goal of 10%.

cc: Ms. Priscilla Williams, P.E., Director
Mr. Tim Johnson, P.E., Deputy Director
File