



# SAVINGS FOR SAN DIEGO: BUILDING MAINTENANCE/ MANAGEMENT OUTSOURCING OPPORTUNITIES

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*This policy brief is one of a series of papers intended to identify and analyze outsourcing opportunities covering a variety of city services for the City of San Diego. This brief takes a look at privatization opportunities for the city's building maintenance and management services.*

Governments at all levels—local, state, and federal—have found that contracting out the operation and maintenance of facilities can lead to innovations, greater productivity, and important cost savings. Facility management contracts are ubiquitous in government and can be applied in a variety of forms, from individual building maintenance and janitorial contracts to agency-wide facility maintenance management systems.

The city of San Diego manages its building facilities through the Facilities Division of the General Services Department. As described in the city's Fiscal Year 2010 Annual Budget,

*The Facilities Division provides day-to-day maintenance and repair services to over 1,600 facilities including preventive maintenance, scheduled maintenance, emergency repairs, and deferred maintenance. Deferred maintenance work includes re-roofing facilities, replacing Heating, Ventilating, and Air Conditioning (HVAC) systems, performing structural improvements, and other repair work.<sup>1</sup>*

Cost savings from competitively contracting build-

ing maintenance and janitorial services typically range from 32 to 40 percent.<sup>2</sup> San Diego already contracts for some janitorial and security guard services, so it is less likely to achieve savings quite this high. A more conservative potential cost savings range of 10 percent to 25 percent would be a reasonable assumption.<sup>3</sup> Applying this savings range to the Division's FY 2010 budget of approximately \$14.7 million yields **estimated savings of between \$1.5 million and \$3.7 million per year.**

According to a 1999 Calvert Institute study,

*Between the years 1987 and 1995, the percentage of cities contracting out for building maintenance services increased by 10 percent, bringing the total percentage of cities contracting out this service to 42 percent. During this same period, the percentage of cities contracting out janitorial services increased by 17 percent, bringing the total percentage of cities contracting out for this service to 70 percent.<sup>4</sup>*

In the early 1990s, the U.S. Government Accountability Office reported on a large-scale study of maintenance of federal General Services Administration Public Buildings Service buildings and found a 25 percent cost reduction through contracting.<sup>5</sup> Table 1 compares the national averages for janitorial and maintenance costs in government and in private buildings.

Contracting also helps governments address the chronic problem of deferred maintenance, which

**Table 1: National Averages of Janitorial and Maintenance Costs (per Rentable Square Foot), Public vs. Private Sector**

Facility	Janitorial/RSF Low-High	Maintenance/RSF Low-High
National Government (BOMA)	\$1.06-\$1.71	\$1.96-\$4.44
National Private (BOMA)	\$0.81-\$1.35	\$1.96-\$4.16

Source: Building Owners and Managers Association, 2005 Exchange Report

places strain on existing infrastructure, shortens the useful life of assets, and increases life-cycle asset costs. Traditionally, in times of financial crisis, preventative maintenance is among the first cuts agencies make. However, such a move may cause deterioration in infrastructure and result in higher long-term costs. San Diego currently has a backlog of about 1,300 facilities work orders.<sup>6</sup>

The good news for the city is that it has made efforts to define and reduce this backlog in recent years. A contract was awarded in July 2008 to conduct a comprehensive Facilities Condition Assessment on 370 city facilities for the Fire-Rescue, Library, Park & Recreation, and Police departments and lifeguard stations. That assessment is still ongoing. An additional 66 assessments will be made during the current fiscal year, at which time all major facilities will have been assessed. The city expects to complete all facilities assessments on a six-year cycle in the future.

Having good information about the condition of buildings and establishing goals and timelines to keep this information up to date are important first steps, and would greatly aid the city in structuring a contract with private-sector facilities management firms to address its facilities maintenance backlog and improve facilities management.

## I. BUILDING MANAGEMENT / MAINTENANCE PRIVATIZATION OPPORTUNITIES

**Aggressively pursue performance-based maintenance contracting for state buildings and facilities.** Typical building management/maintenance contracts emphasize inputs: procedures, processes, the wages to be paid, amount or type of equipment, or time and labor used. Contracting com-

panies are paid for the amount of work they do, not on the quality of work that is provided. These contracts are usually limited to one year with two option years. While traditional contracting in building operations and maintenance offers significant cost savings over in-house government provision, there is little or no flexibility in determining work methods, as the contracting agency typically defines the work processes. In effect, the private contractor mimics the agency's processes and thus, by definition, severely restricts innovation and limits the potential benefits.

Current best-practice techniques in outsourcing rely on longer-term (3+ year) performance-based maintenance contracts. Under this type of arrangement, the contracting agency defines an end outcome goal and the contractor decides how best to achieve the desired outcome. The contract creates clearly defined performance measures, clearly defined outcomes and timetables, and allows for new and innovative methods, opportunities for value engineering, and improved efficiencies. A performance contract may tie at least a portion of a contractor's payment, as well as any contract extension or renewal, to their achievement.

Performance contracts clearly spell out what is expected of the contractor, but the manner in which the work is to be performed is left to the contractor's discretion. Performance-based contracts promote the broad range of privatization goals that go beyond simple cost savings. They allow governments to purchase results, not just process, rewarding the private firm only if specified quality and performance goals are met. With performance-based contracting, governments are purchasing something fundamentally different from in-house services.

This approach to performance-based, "total asset management" contracting emerged from the field of road and highway maintenance both in the United States and around the world. These contracts cover

every part of the road or highway and include all maintenance managing the “total asset.” The contracts specify minimum performance standards and a desired end outcome. Payment is based on achievement at different milestones, rewarding contractors for high or exceptional performance with bonus payments and penalizing them for poor performance with fines.

Performance-based total asset management contracts are longer-term than traditional contracts—typically five or more years with extension options at the end—which fosters a good relationship between the government and the contractor that will add to the value and quality of the work performed. Cost savings and efficiencies will not be immediate, but this sets the stage for predictability (fixed-costs) in the maintenance budget and potentially the transfer of risks that make costs fluctuate from year to year.

While this approach was pioneered in Australia and New Zealand, Virginia’s Department of Transportation became the first in the U.S in 1996 to apply the concept to road maintenance, outsourcing over 250 miles of interstate maintenance to one contractor in a 5.5-year, \$130 million fixed-cost contract (which was subsequently renewed and extended). Florida’s DOT took the ball from Virginia and has run with it. The state currently has 32 total asset management contracts, covering all manner of road typologies and geographies (i.e., specific interstate segments, entire stretches of interstate, entire FDOT districts, bundles of highway segments, toll roads, etc.).

The savings and operational efficiencies in Florida have been significant. For 28 of its 32 contracts, FDOT estimates savings over in-house provision at 16 percent, and savings over traditional short-term maintenance contracting of 10 percent. It is likely that the true savings are even higher. Those 28 contracts would have been 980 contracts had they been issued through traditional short-term maintenance contracting. Instead of the 348 invoices they process annually under the 28 contracts, the state would have processed over 11,000 annually under traditional contracting approaches.

The very same approach is starting to be used beyond just roads, now extending into the building and facility arena. State and local governments will

reap the same benefits as longer-term road maintenance contracting—greater cost savings, a predictable budget line item over a multi-year period, risk transfer, and efficiency gains. As with roads, facility maintenance and management contracts could cover individual facilities, facilities in a common category, facilities within individual districts, facilities in bundles of districts, and even agency-wide facilities. For example, Georgia’s Department of Juvenile Justice has adopted the same type of performance-based maintenance contracting approach in its facility management. (This initiative is discussed in the following section.) Further, a number of states—including Virginia, Texas and California—have developed or are developing new, privately financed schools, courthouses, hospitals and other government facilities under long-term public-private partnerships. These arrangements typically include long-term contractor responsibility for maintenance and management.

San Diego should explore similar opportunities for performance-based building management and maintenance. If the city were to act quickly in contracting out its facility maintenance services, it should be able to realize some savings during the first year of the contract, and full cost savings levels in subsequent years. As noted above, these savings could be significant—likely totaling up to several million dollars a year. Given that the city is struggling to plug a significant budget deficit, the sooner it acts to begin the competitive bidding process, the sooner it will be able to realize these benefits and use them to balance the budget and prevent program cuts in other areas.

## II. BUILDING MANAGEMENT/ MAINTENANCE PRIVATIZATION CASE STUDIES

### A. State of Georgia, Department of Juvenile Justice

Georgia’s Department of Juvenile Justice (DJJ) began outsourcing facility maintenance at 30 of its 35 facilities in 2001, contracting with CGL Engineering Inc. for a comprehensive maintenance solution, marking the first successful state correctional system main-

**Table 2: Before and After: Impact of Privatization on Los Angeles County  
(Custodial Costs per Square Foot)**

Indicator	Before	After	Savings (\$)	Savings (%)
Custodial Costs, 15 Buildings	\$3.79	\$1.85	\$242,279	51%

tenance outsourcing to a private firm.<sup>7</sup> The partnership was structured to provide a long-term maintenance solution without increasing the budget.

The results have been impressive. The DJJ found significant improvement in the condition of facilities after just one year. For the first six months of the contract, corrective maintenance work orders outnumbered preventive maintenance work orders as long-standing maintenance needs were addressed. After two full years of the contract, preventive maintenance work orders were almost double the corrective work orders (19,700 preventive, compared to 11,504 corrective). Significantly, the cost of preventive maintenance in the contract remained at 2000 labor costs (before maintenance was outsourced). To date, this privatization has generated significant improvement in facility conditions and resolved lingering maintenance needs, all while holding the budget flat.<sup>8</sup>

The contractor in Georgia also developed a Computerized Maintenance Management System for all of the facilities as part of the initiative, dramatically improving budget and facility conditions information management. Prior to this, the state did not collect this information.

## B. Los Angeles County, California Competitive Contracting

Los Angeles County first contracted out for maintenance and custodial services in 1980. At first, things did not go smoothly. The initial contracts lacked quality-of-service provisions and contractors were not encouraged to hire displaced county workers. The county learned from its mistakes, however, and improved its contracting process in the second round of contracts.<sup>9</sup>

According to a 1999 Calvert Institute study,

- Contracts typically are now five years in length.
- Both quality and low bid are considered in awarding the contract.
- The county currently has 15-20 custodial contracts,

each selected on the basis of overall merit.

- Custodial employees now have several options regarding employment:
  - a) they can choose to be retrained in other fields and then transferred to other areas within county government where they have the potential for increasing their salaries;
  - b) they can choose early retirement; or
  - c) they can go to work for the private-sector provider.<sup>10</sup>

As a result, the county achieved savings of 51 percent from contracting, compared to previous in-house operating costs (see Table 2).

## C. Mecklenburg County, North Carolina: Contracting for Correctional Facility Management<sup>11</sup>

Jail facility management, like inmate management, requires specialized skills. Mecklenburg County Sheriff Jim Pendergraph saw the value of focusing on his core competency, which was managing inmates, not facilities. “I know how to take care of inmates but I don’t know how to take care of the facilities,” he realized.

Because his interest was in security, not maintenance, Pendergraph turned to outsourcing for the latter. A local full-service real estate company, the Keith Corporation (TKC), was brought in to consult. After initial discussions, TKC sought out a consultant of their own to learn the nuances of managing correction facilities (e.g., tool control, security, and work programs). Shortly thereafter, Keith & Keith Corrections (KKC) was formed in order to specialize in correctional facility maintenance management.

KKC developed a first year, pro-forma plan to provide facility maintenance services for both the Mecklenburg County Sheriff’s Office (MCSO) existing facilities and its new 1,004-bed facility, which was nearing construction. KKC’s plan was substantially less expensive than initial MCSO budget projections,

and KKC was awarded the contract in April 1996.

Since then, KKC has continued to provide facility management services for MCSO. Essentially, KKC provides full-scale facility maintenance-management services (including paying bills related to their services such as utilities, waste removal, and supply purchases) for Jail Central (the new 1,004 bed pre-trial detention and intake center), Jail North (a 614-bed facility), Jail North Annex (a 200-bed temporary facility), and the Work Release and Restitution Center (150 beds). A 900-bed expansion of Jail Central is nearing completion and will be added to KKC's contract in late 2001.

Each month, KKC provides MCSO with a detailed invoice of its services. A flat fee is charged, and all reimbursables are billed with no mark-up. Under this system, MCSO cuts only one check a month, compared to dozens before. KKC also instituted a new payroll system for MCSO, enabling them to determine how much time and cost it takes to perform various maintenance activities.

Outsourcing facility maintenance has several advantages. Besides providing detailed accounting, reporting and benchmarking of costs, KKC can use its buying power to shop for lower prices from suppliers. By and large, the single most important benefit is that the company is run by real estate management professionals who bring a wealth of experience and expertise to facility management. Focusing on their core competency allows KKC to keep up with the latest technologies, including training and staff development, that are specific to facility maintenance.

Rachael Vanhoy, business manager for MCSO, says that significantly higher standards for maintenance and service have been established. Respective responsibilities are more clearly defined: the primary mission of MCSO is corrections and security, while the primary mission of KKC is to provide quality facilities management services at a cost-effective price. The first full fiscal year savings were approximately \$315,000. Vanhoy further notes that most MCSO employees were retained by KKC.

## D. State of Missouri<sup>12</sup>

Through performance contracting, the state upgraded facilities, as well as information manage-

ment and control systems in approximately 1,000 buildings. By integrating individual systems and buildings at a common user interface level, the state of Missouri delivers real-time accountability and is expecting annual savings to surpass \$9.5 million.

## E. Hamilton County, Ohio, Competitive Contracting

As of April 2007, Hamilton County has over 36 facilities maintenance contracts covering janitorial services, landscaping, pest control, elevator maintenance, and building automation and controls. The county contracted all \$2.1 million of the Facilities Department's capital projects and nearly \$5.8 million in maintenance expenditures for 2006.<sup>13</sup> This represents 41 percent of the department's total budget. The county estimates a potential savings of 14 percent relative to the costs of in-house provision of these services.<sup>14</sup>

# OTHER STATE PROPOSALS

## A. California Performance Review

The California Performance Review (CPR), a major efficiency and performance review initiated by Governor Arnold Schwarzenegger, recommended that state policymakers "release state departments from the real estate services monopoly," finding that the state's real property purchasing, leasing, management, construction, maintenance, and operations processes are more costly and time consuming than those in the private sector. The CPR suggests that increasing agency and program responsibility and accountability by removing existing barriers would improve program delivery and reduce costs. To that end, the CPR recommended that the state allow individual agencies to choose their real estate service providers from a selection of pre-approved internal or external organizations.<sup>15</sup>

## B. Indiana's PROBE

In 2005, Indiana Governor Mitch Daniels launched an aggressive review of the size, scope, functions, and budget of each agency called PROBE (Program Results: an Outcome Based Evaluation). PROBE

has developed nearly 200 recommendations on opportunities to consolidate, streamline, and privatize various state services and activities. In its first 2006 report, PROBE recommended that the state competitively source housekeeping and janitorial functions for facilities statewide.<sup>16</sup>

## C. Louisiana

In November 2009 the State of Louisiana indicated its intent to seek longer-term, performance-based asset management services for state facilities by contracting with private-sector vendors. Under the leadership of the administration of Governor Bobby Jindal and the state's Division of Administration, the Office of State Purchasing has posted a Request for Proposals (RFP) for Facility Maintenance Services for the Office of State Building and Grounds on its Web site.<sup>17</sup>

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