



TSEA Presentation to
Senate State & Local Government Committee
Tuesday, March 22, 2016

TSEA response to Business Justification for Facilities Management Outsourcing

Business Justification overview

Provisional figures indicate that the Haslam outsourcing plan could cut costs by up to \$35.8 million dollars without cutting staff or benefits.

Reductions we were told will primarily come from:

- Self-performance
- Volume discounts

NOTE: While we were told there will be no cuts to current staff or employee benefits, benefits such as longevity and TCRS (pension) are dependent on employment with the state and therefore would end with the termination of each employee's state position; plus, outsourced employees would no longer be eligible to participate in the state group insurance plan, which may result in a reduction to their health insurance coverage.

A small problem

This essentially means when Tennessee currently must go outside state government to purchase goods or services from the private market, we are being overcharged by \$35.8 million*.

This is a small, easily-correctable problem.

*We are assuming a private company's profits were not subtracted from the overall savings figure.

A small problem

The Haslam administration's proposed solution to this problem is to turn over to a private company the **entire** operation of **all** facilities management at **all** state buildings across Tennessee.

Their solution doesn't match the problem.

A small problem

A recent editorial from the Knoxville News Sentinel pointed out that the annual savings from the Haslam outsourcing proposal, if every state property targeted included in the plan is outsourced, amounts to less than 1/10 of 1 percent of the state's proposed \$38.4 billion budget.

Again, this is a **small, easily-corrected problem**.

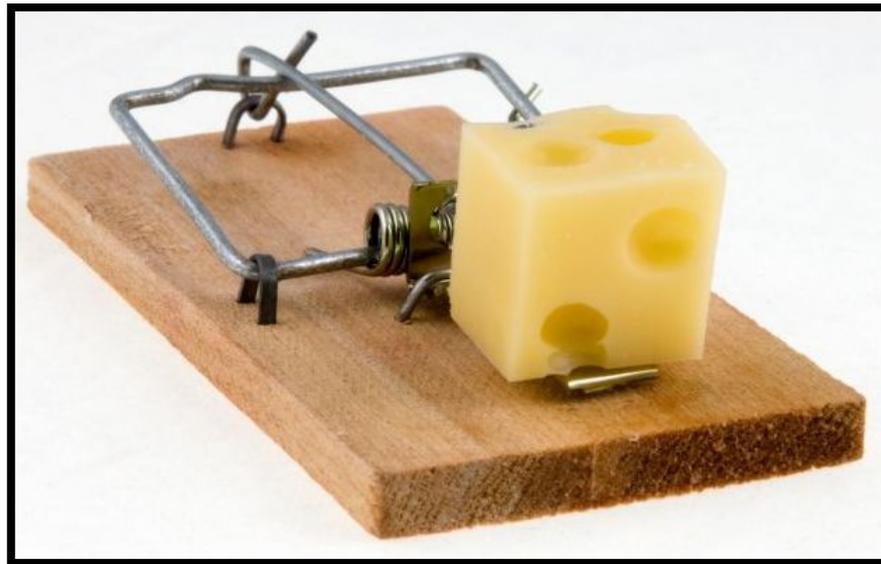
A small problem

**We don't need to blow up the house
to catch a mouse!**



A small problem

Let's take a more conservative, common sense approach to address this issue.



Don't give up on state employees!

Let's simply leverage our \$30+ billion enterprise to negotiate better pricing on goods and services, cross-train our current employees, and let state employees continue the great work they are doing.

Or...

We can turn over the entire operation to a private company...

Let's consider the risk.

Creating a potentially large problem

Cost savings, at what cost?

Often with outsourcing, a private vendor will transfer costs to a place where they are not measured – in this case those places might be mandatory meal fees with annual rate increases, misc. student fees, à la carte pricing for special events and extra-curricular student activities, cuts to employee benefits, etc. This is known as *cost shifting*.

Some of this *cost shifting* is happening at Texas A&M.

Texas A&M

Brief background:

The Texas A&M University System and Texas A&M University in 2012 awarded a contract to **Compass Group USA** to manage and operate dining services, building maintenance, landscaping services and custodial services.

The Compass Group is the **largest contract foodservice company in the world** - with operations in over 50 countries - and is **the 6th largest publically traded company in the world**.

The press release announcing the outsourcing contract indicated over the course of 10 years, the arrangement would produce \$260 million in revenue and cost-savings for the A&M System. **Compass Group** also committed to retain the current university and A&M System workforce. They agreed to hire all current employees...and will match their salaries and benefits, and will offer enhanced training opportunities

Compass group owns subsidiaries **SSC service solutions** (based in Knoxville, TN), and **Chartwells** (based in North Carolina). SSC and Chartwells manage all of Texas A&M's dining, custodial, grounds, and maintenance operations.

Texas A&M

A few blurbs from news articles about outsourcing at Texas A&M

“1,647 workers were laid off from the state and forced to re-apply with Compass for the same jobs they’d had for years with the university...only about 600 were hired”

“When students returned to classes in the fall of 2012, they found that the cost of their meal plans had gone up.”

“Nearly 3,500 people have signed petitions protesting the changes, and the A&M student senate in late October passed legislation demanding students get reimbursed for the two days on-campus eateries were shut down because of cockroaches and rats --- the first time the health department has shut down A&M dining facilities.”

“Students said they are paying more for meals and have less flexibility in where to dine. The university has also mandated that freshmen and sophomores living on campus must buy a meal trade, a plan that will be eventually phased-in to include on-campus juniors and seniors. The cheapest plan costs \$1,200 a semester”

Texas A&M

(Cont'd) A few blurbs from news articles about outsourcing at Texas A&M

“Chartwells increased their meal plan pricing by 2.88 percent in fall 2013. The company is allowed, per its contract, to increase rates by up to 3 percent each year to keep up with market prices.”

“The Aggie Conservatives want A&M to break its contract with Chartwells, which would result in more flexibility for students, but also force the university to pay back tens of millions of dollars of a \$46.5 million signing bonus.”

*“Whether we understood what we were getting ourselves into or they understood what they were getting themselves into -- I don't think either of us knew what we were getting into, but we're in it and we're going to try and make it work.” - **Ralph Davila, Texas A&M Executive Director for Facilities and Dining Administration***

Items to consider

- Will employees need to reapply for their jobs?
- Will workers who are close to retirement be forced to retire?
- Will workers, to keep their jobs, be forced to transfer across the state, or beyond a reasonable distance from their current job?
- Is estimated profit included in the business justification cost reductions?
- Will all current services, including unique institution-based services, be included in the initial contract's scope of services?
- Unlike state employee salaries, will proposed contracts include automatic cost increases?
- Will facilities start receiving bills for items that have always been a part of building maintenance in the past?
- Will contracted employees be allowed to use state owned vehicles?
- Will students see mandatory increases in current fees, or be subject to new mandatory fees related to outsourcing?
- We are already having issues with the quality of work provided by JLL right here in Legislative Plaza, what problems might we have on this much larger scale?
- Will the Higher Education facilities have any authority to terminate a relationship with a vendor?

...and why?

- Why take such large risk for such a small issue?
- Why not cross-train state employees and negotiate better volume pricing ourselves?
- Why relinquish control over services for an issue which is very easily solved?
- Why risk subjecting current and future/prospective students to new fees, costs, and hassles?
- If this is the direction we wish to take with our Higher Education system, why not implement these fees ourselves and reinvest revenue in the state system?
- Gov. Haslam said the key to great service is great employees. We have great employees, why do we need an external vendor in order to better serve our customers?
- Commissioner Martin said we need to be prudent with taxpayer money. Why does the administration think the prudent use of taxpayer money is the path that sends revenue out of the system?

We can do better

- **Don't give up on state employees**
- Private companies cannot compete on a level playing field with state employees.
- We already employ a smart, flexible, efficient and effective workforce.
- State employees offer the most effective long-term cost savings plan for Tennessee.
- These cost savings, the only cost savings discussed, could easily be accomplished without relinquishing control of services, disrupting the system, and subjecting current and future students to fee increases and hassles so a private company can make a profit.
- **Let's take the conservative, common sense approach of cross-training our current workers and negotiating better deals on goods.**

Thank You!

