

Opportunities Exist to Improve the Efficiency of the State's Administrative Services

A presentation to the Joint Legislative Oversight Committee on General Government

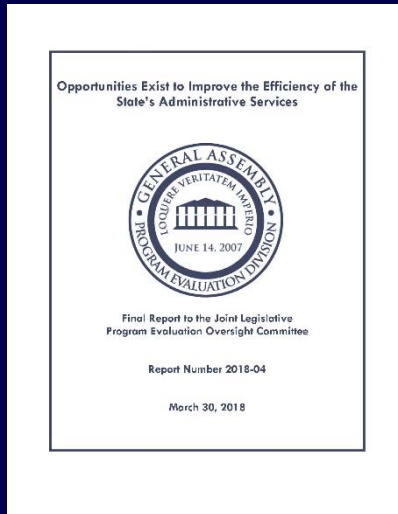
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Chuck Hefren, Principal Program Evaluator

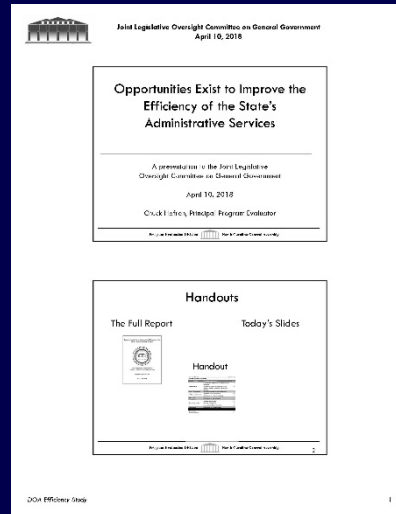


Handouts

The Full Report



Today's Slides



Handout

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Study Directive

- Consult with State Auditor to identify potential efficiency opportunities
- Utilize results of measurability assessments to identify efficiency opportunities
- May utilize contracted services to obtain subject matter expertise
- State Auditor shall review draft report and provide written response to be included in final report
- Final report due March 30, 2018



DOA Divisions with Identified Efficiency Opportunities

- State Property Office
- Facility Management
- Purchasing & Contracts
- Motor Fleet Management
- State Parking
- Mail Service Center
- Surplus Property



Potential Efficiency Opportunities

Division	Efficiency Opportunities
State Property	Cost-effective achievement of state occupancy standards
	Transitioning employees from state-owned property to leased properties in lower-cost locations
Facility Management	Increased utilization of contracted services
Purchase and Contract	State term contract compliance
	Effective use of competitive bidding



Potential Efficiency Opportunities

Division	Efficiency Opportunity
Motor Fleet Management	Effective use of telematics data
Mail Service Center	Scanning incoming mail
	Reducing outgoing mail
	Increased use of presort contract
State Parking	Effective use of available spaces



Background

- DOA provides centralized administrative support for state agency operations
 - Fiscal Year 2016-17 expenditures: \$260 million
 - Authorized FTE: 457



Efficiency Opportunities



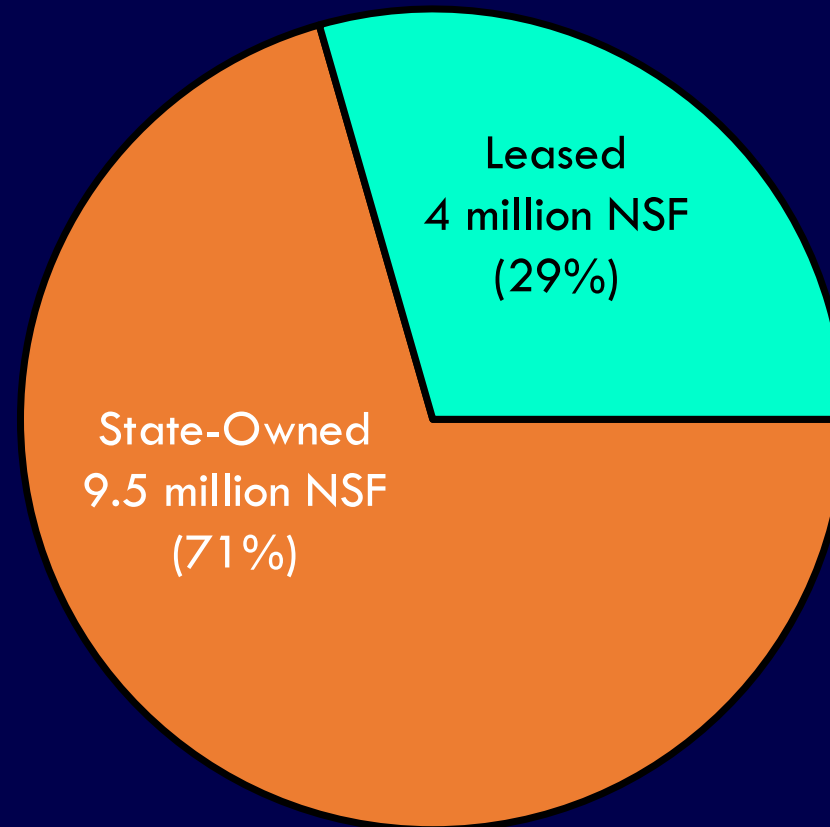
State Property Office

Objective: Manage the State's real estate transactions on behalf of state agencies and maintain a complete and accurate inventory of state-owned property



State Property Office

In Fiscal Year
2016–17, the State
Property Office
Managed 13.5
Million Net Square
Feet of Office
Space



State Property Office

State Occupancy Standards

- Reducing the average amount of office space utilized by state employees is a cost-effective way to reduce facility management costs
- The amount of space allocated to each employee should be unique for each state-owned and leased office facility
- SPO does not have readily-available and valid information identifying employees assigned to each office facility



State-Owned Office Facilities in Downtown Raleigh Have Not Been Renovated in Several Decades

Building	NSF	Year constructed	Year renovated
Highway Building	137,023	1951	1968
Highway Building Annex	38,040	1918	1968
Agriculture	50,981	1923	1970
Agriculture Annex	45,945	1954	1975
Labor	24,926	1888	1970
NC Department of Justice	121,447	1938	1975
Old Revenue	102,606	1927	1927
Justice	48,539	1940	1980
Court Of Appeals	34,239	1913	1975
TOTALS	603,746		



Expiring Office-Space Leases Provide the Best Opportunity to Cost-Effectively Achieve Space Standards

Lease Expiration	Number of Properties	Net Square Feet (NSF)	Average cost/NSF	Total Annual Cost
Before July 1, 2017	179	1,002,991	\$15.63	\$15,677,628
July 1, 2017- June 30, 2018	135	604,808	16.07	9,718,492
July 1, 2018- June 30, 2019	103	383,743	15.48	5,938,584
July 1, 2019- June 30, 2020	90	368,706	17.47	6,441,072
July 1, 2020 – June 30, 2021	53	513,891	15.54	7,985,509
July 1, 2021- June 30, 2022	30	315,686	15.80	4,987,927
After June 30, 2022	40	786,542	15.53	12,060,660
Total	630	3,976,367	\$15.80	\$62,809,871



State Property Office Transitioning Employees

- Current inventory of state-owned property may no longer be cost-effectively contributing to the State's goals and objectives
- Land sites in downtown Raleigh have reached unprecedented values due to the surge in residential, commercial, and retail development



State-Owned Office Facilities in Downtown Raleigh Have High Value and Significant Reported Deferred Maintenance and Repairs Requirements

Building	Tax Assessed Value (Property)	Tax Assessed Value (Land)	Total Assessed Value	Deferred Maintenance
Highway Building Annex	\$5,842,821	\$13,315,971	\$32,525,849	3,085,290
Highway Building	\$12,860,490			2,110,400
DOT-Parking Deck	\$506,567			
Agriculture	\$8,067,198	\$8,812,079	\$27,294,566	\$36,021,310
Agriculture Annex	\$7,597,717			30,044,300
Labor	\$2,712,434			2,162,420
Service Garage	\$105,138			
DOJ	\$21,878,982	\$23,237,840	\$107,500,554	277,550
Nature Research Center	\$39,560,748			901,550
NRC-Parking Deck	\$7,421,238			
DOA-Parking Deck	\$15,401,746			
Old Revenue	\$11,016,753	\$4,112,334	\$15,129,087	15,535,000
Justice	\$8,961,247	\$2,154,094	\$11,115,341	6,434,090
Court Of Appeals	\$4,401,515	\$2,154,094	\$6,555,609	\$2,241,850
TOTALS	\$146,334,594	\$53,786,412	\$200,121,006	\$98,813,760



State Property Office Transitioning Employees

- Some of the available alternatives to transfer rights and responsibilities to another private or public entity are:
 - Retain ownership of the property (land and building) and lease the existing building to a private sector tenant.
 - Retain ownership of the land, lease the land to a private sector developer, and allow the developer to build whatever type of building has the most commercial value.
 - Sell the property (land and building) to the private sector



State Property Office Transitioning Employees

To achieve best value, a systematic process should be undertaken to determine whether to sell or lease a state-owned property

- Categorize properties by state's goals for future use
- Determine use of proceeds from sale or lease
- Perform an Economic Analysis.
- Ensure authority to sell or lease each property



State Property Office Recommendations

1. The General Assembly should direct the Department of Administration to establish and enforce space utilization criteria for each state-owned and leased office facility
2. The General Assembly should direct the Department of Administration to evaluate alternatives to reduce facility management costs and generate additional revenue through more effective use of state-owned and leased office facilities



Facility Management

Objective: Provide a safe and healthful work environment for employees and the general public in a cost-effective and energy-efficient manner

Activities:

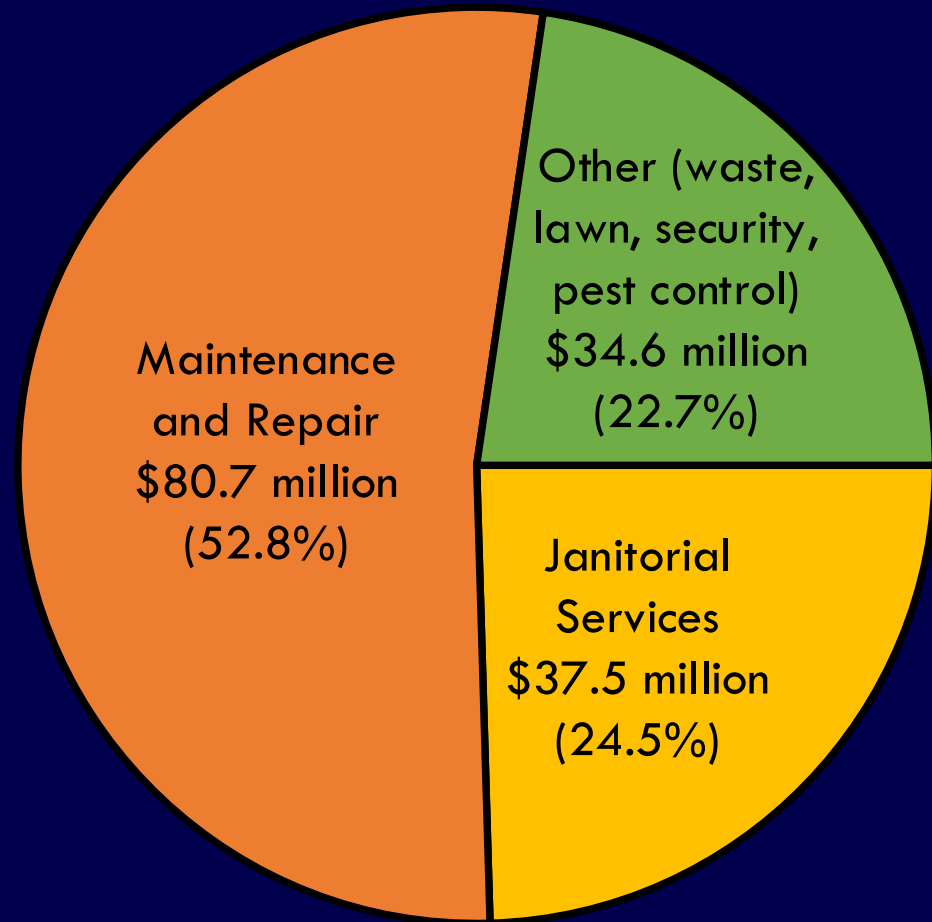
- Perform maintenance on 169 state-owned facilities with a total of 5.8 million net square feet



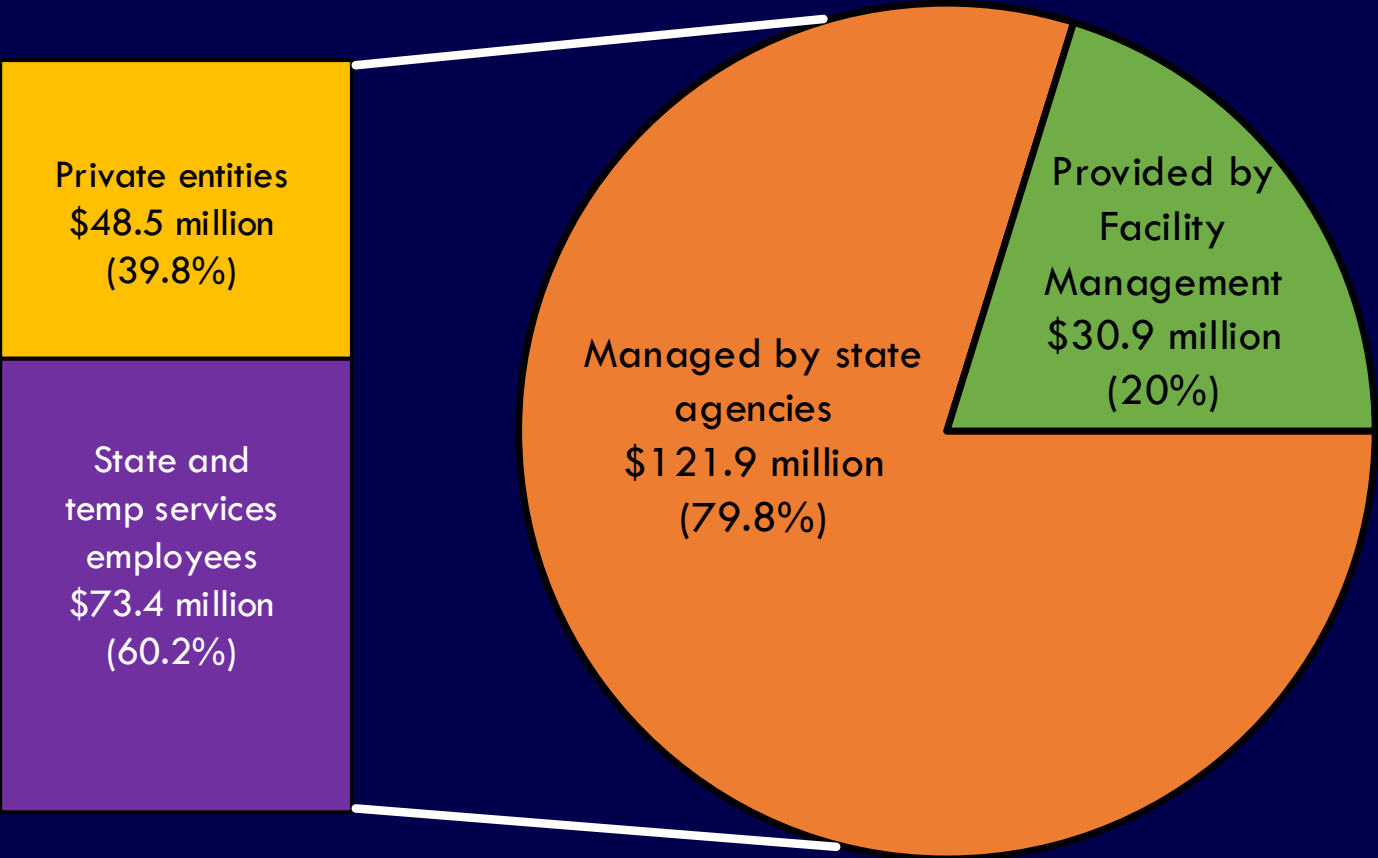
Facility Management

Increased Use of Contracted Services

In Fiscal Year 2016–17,
Facility Maintenance
and Repair Activities
Accounted for More
Than Half of the
\$152.8 Million
Expended to Ensure
Operability of State-
Owned Facilities



In FY 2016–17, Services Provided by Facility Management Only Accounted for 20% of the \$152.8 Million Expended to Ensure Operability of State-Owned Facilities



Facility Management

Increased Use of Contracted Services

- A recent business case analysis of the Facility Management division found numerous obstacles and risks that may adversely impact the effectiveness and efficiency of its operations
 - Processes are not documented
 - Systems are outdated
 - Current approach to maintenance is “run to fail” and responding to “the latest crisis”
 - Staffing—specifically talent attraction, retention, and turnover—is a major challenge



Facility Management

Increased Use of Contracted Services

- Tennessee reported annual savings of \$5 million from implementation of a single source contract for facility management services
 - Contract includes financial performance incentives
 - Cost savings realized by changes in four specific areas
 - Procurement Leverage
 - Improved Training/Skills
 - Optimized Staffing
 - Labor Savings



Facility Management

Increased Use of Contracted Services

- To ensure North Carolina's General Assembly has the necessary information to determine whether to pursue a single-source contract for the management of state-owned facilities, a business case analysis should be performed
- Activities associated with the business case development process should include:
 - identification of available service delivery options,
 - development of complete and reliable cost, benefit, and performance data
 - consideration of any limitations on the use of a competitive bidding process to select a provider



Facility Management Recommendations

3. The General Assembly should direct the Department of Administration to perform a business case analysis of facility management services performed on state-owned property



Purchase and Contract

Objective: Obtain best value for all purchases made by state agencies

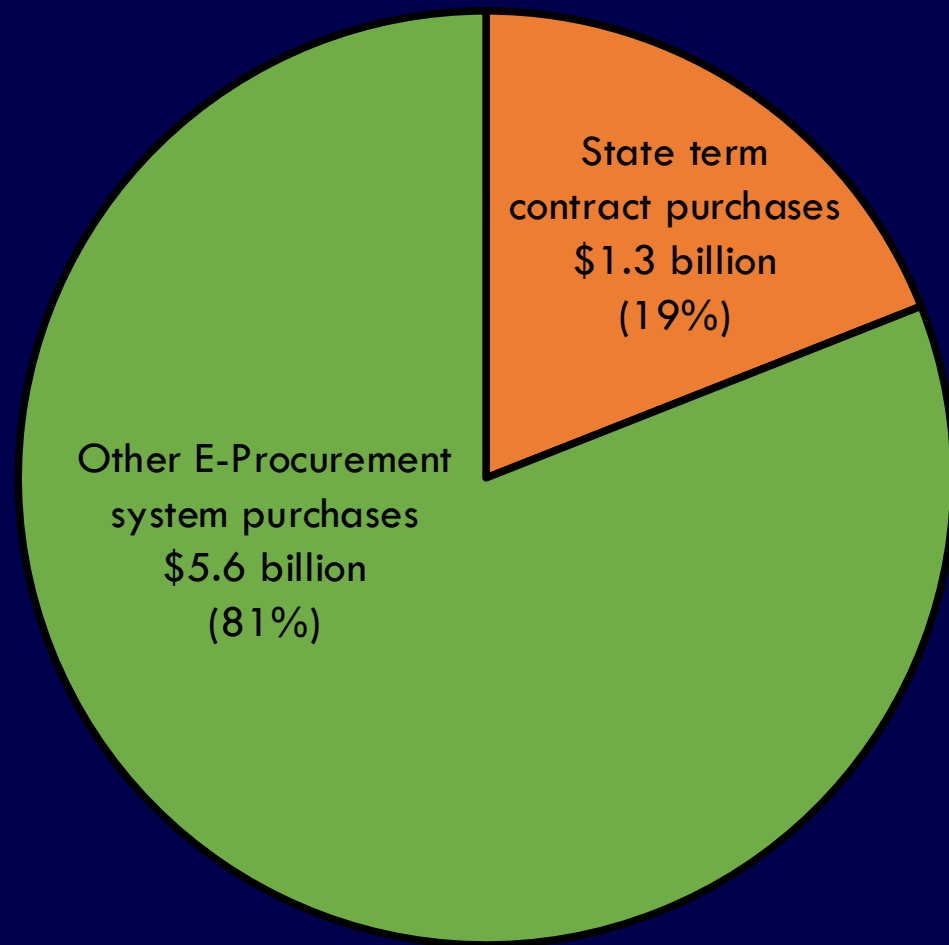
Fiscal Year 2016-17 Activities

- Managed 58 state term contracts with purchases exceeding \$1.31 billion
- Authorized 297 awards for contracted services totaling \$223.6 million



Purchasing and Contract

State Term Contract Purchases Accounted for 19% of the Nearly \$7 Billion Expended Through E-Procurement System in Fiscal Year 2016–17



Vendor Analysis of Nine State Term Contracts Determined Full Compliance Would Save Nearly \$39M

Contract	Savings %	Total Documented Spend	Total Documented Savings
Office Supplies- 615A	31.1%	\$36,566,197.66	\$16,511,107.54
Office Paper- 645A	9.3%	\$10,693,534.38	\$1,092,363.90
Lab Supplies- 493A	13.9%	\$12,701,389.78	\$2,044,117.95
MRO- 445B	13.2%	\$22,291,672.00	\$3,389,198.87
Diesel- 405B	7.1%	\$55,385,560.32	\$4,215,258.30
Gasohol- 405C	2.4%	\$36,945,826.82	\$901,322.04
Auto Parts- 060A	13.7%	\$2,538,178.82	\$403,766.35
Tires- 863A	11.5%	\$37,213,444.16	\$4,833,071.07
Vehicles- 070A	5.7%	\$90,797,241.82	\$5,488,274.43
Total	12.74%	\$305,133,045.76	\$38,878,480.45



Purchase and Contract

Effective Use of Competitive Bidding

- Review of 133 high-value service contracts identified 18 contracts with 31 separate extensions totaling \$56.0M
- To reduce costs in 2011 Florida directed state agencies to request a 10% reduction in the prorated amount of the contract as a condition of contract extension without a competitive bidding process
 - Obtained 100% acceptance from vendors



Purchase and Contract Recommendations

4. The General Assembly should direct the Department of Administration to monitor enforcement of statutory compliance with state term contract utilization requirements by state agencies
- 5a. The General Assembly should direct the Department of Administration to procure and implement a contract management system for state agency-administered contracted services
- 5b. The General Assembly should direct the Division of Purchase and Contract to require state agencies to obtain a 10% reduction from the annual value of the original contract as a condition of awarding an amendment to a contract that extends the period of time in which a service provider is authorized to expend funds



Motor Fleet Management

Objective: Provide savings to the taxpayers of North Carolina by providing a low-cost, centralized source of passenger vehicles to state agencies and state employees in the performance of their duties.

Motor Fleet Management Assets:

- 7,591 vehicles
- 83,247,753 miles driven by managed vehicles



Motor Fleet Management

Effective Use of Telematics Data

- Provides information to improve performance in the following areas:
 - improved driving behavior achieved through reductions in fuel consumption and number of accidents,
 - more efficient route planning,
 - optimized vehicle inventorying,
 - higher resale value achieved through improved preventative vehicle maintenance,
 - lower vehicle repair costs, and
 - identification of unauthorized usage.



Motor Fleet Management

Effective Use of Telematics Data

- Entire fleet will have telematics installed by June 30, 2018 at a cost of \$1.9 million
- Immediate savings associated with changes in driving behavior
 - Will dissipate over time if not monitored and enforced
- Additional savings can be achieved by optimizing the fleet inventory
 - Nearly 60% of fleet not meeting minimum mileage requirements



Motor Fleet Management Recommendations

6. The General Assembly should direct the Department of Administration to establish or modify current business processes to ensure realization of potential reductions in the total cost of ownership for managed vehicles



Mail Service Center

Objectives:

- Processing incoming mail and delivering it in a timely manner to the appropriate agency mail service center
- Provide presort mail services for state agencies to obtain discounted postage charges.



Mail Service Center

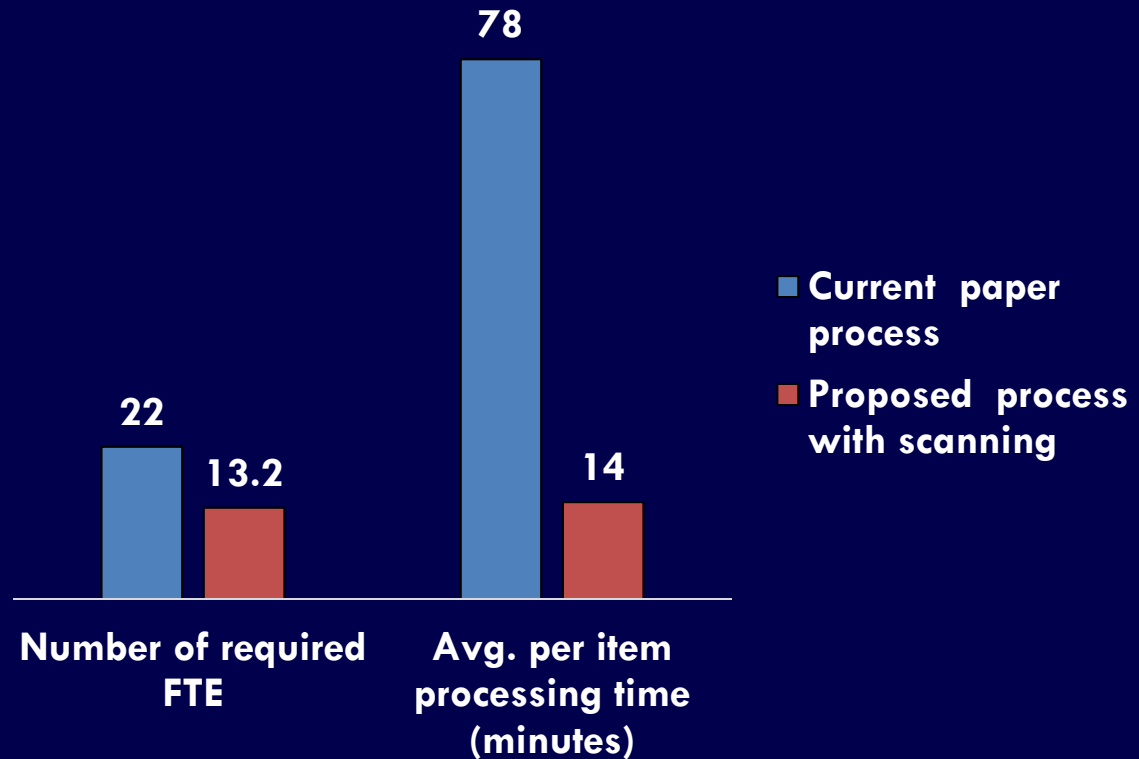
In Fiscal Year 2016–17, the Mail Service Center Processed and Delivered an Estimated \$4.7 Million Pieces of Mail

Mail Category	Estimated Volume (FY 2016–17)
Letters	2,676,348
Flats	1,986,528
Parcels	67,284
Total	4,730,160



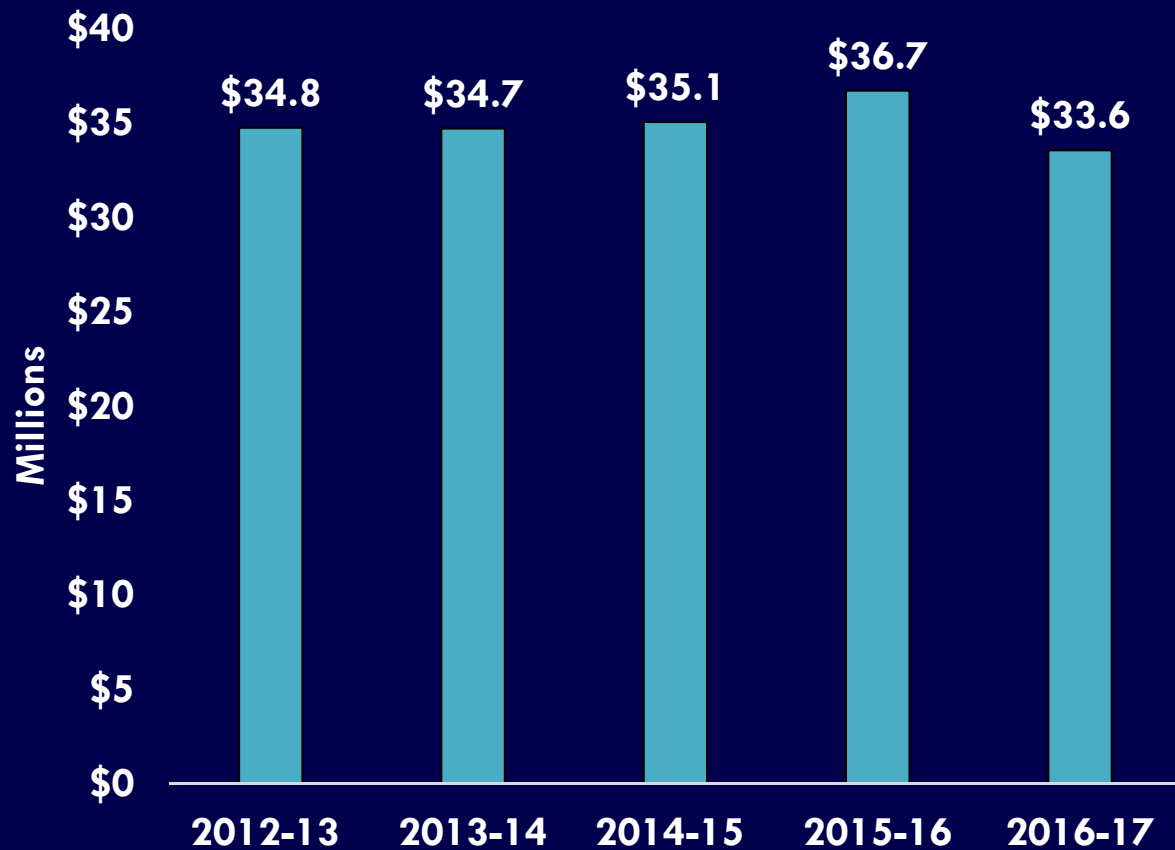
Mail Service Center Scanning of Incoming Mail

Department of
Revenue Estimates
Transitioning to a
Document
Management System
with Scanning
Capability Would
Lower Cost While
Improving
Performance



Mail Service Center Reducing Outgoing Mail

State Agency
Mail Service
Expenditures
Have Not
Significantly
Changed
During the Past
Five Years



Mail Service Center

Increased Use of Presort Contracts

- Mail Service Center realized savings of \$1.3 million through utilization of presort contract with USPS
 - 33% discount in outgoing mail cost
- However, \$11.4M in outgoing mail postage expenditures did not use presort contract



Mail Service Center Recommendations

7. The General Assembly should direct the Department of Administration to conduct further study and develop a business case to compare incoming mail scanning to the current incoming mail process, and report to the General Assembly for next steps
8. The General Assembly should direct the Office of the State Auditor to conduct a performance audit to identify alternatives to reduce outgoing mail service costs
9. The General Assembly should direct the Department of Administration to conduct further analysis to identify cost-effective alternatives to increase the utilization of presort contracts for outgoing mail services



State Parking

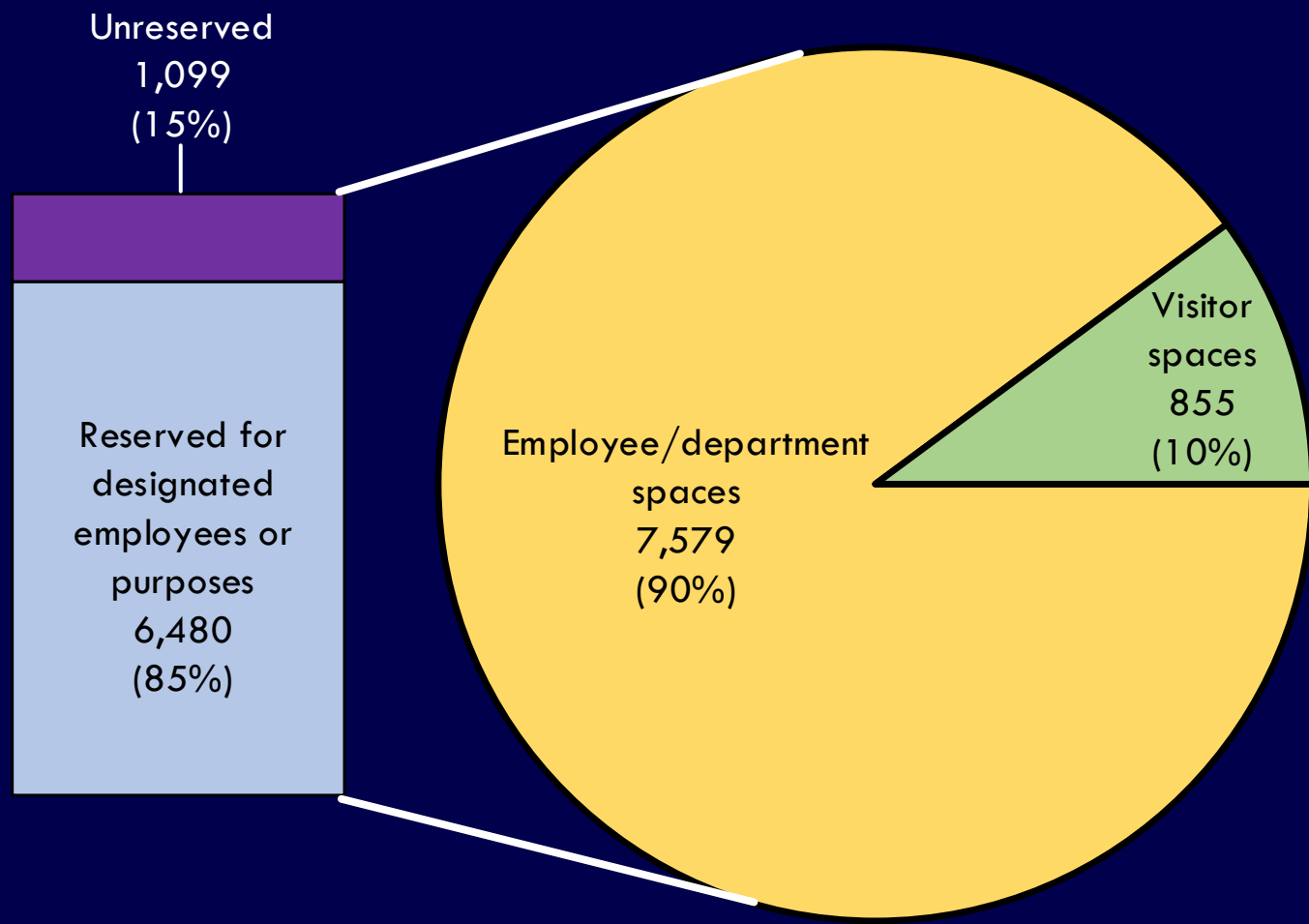
Objective: To provide effective and efficient parking and transportation options that enable employees, departments, and visitors to have access to the downtown state government complex

Assets:

- 24 lots designated for state entities and their employees containing 7,579 spaces
- four parking facilities that are designated for visitor parking containing 855 spaces



Eighty-Five Percent of Employee/ Department Spaces Managed by State Parking Division are Reserved



State Parking Recommendations

10. The General Assembly should direct the Department of Administration to conduct analysis on available opportunities to increase revenue receipts derived from state-owned parking facilities.



Overarching Recommendations

12. To ensure that Department of Administration (DOA) performance can be effectively monitored and managed, the General Assembly should amend statute to include legislative performance measures and require DOA to provide an annual report that includes prior year results for each identified measure as well as the performance target for the upcoming fiscal year



Overarching Recommendations

Legislative Performance Measures

Division	Legislative Performance Measure
Facility Management and State Property Office	Annual Facility Management Cost/FTE
Motor Fleet management	Total Cost of Ownership
Purchase and Contract	State Term Contract Compliance
	State Term Contract Savings
	Percentage of annual expenditures for contracted services procured through a competitive bidding process
Mail Service Center	Annual Cost of Incoming Mail Processing
State Parking	Annual Receipts net Operating Expenses



Overarching Recommendations

13. To ensure effective consideration of efficiency opportunities involving potential outsourcing of services or transfer of the responsibility for asset management to the private sector, the General Assembly should establish requirements for an associated business case analysis



Overarching Recommendations

14. To help ensure the proper conduct and timely delivery of recommendation(s) pertaining to each authorized efficiency opportunity, the General Assembly should direct the Department of Administration to establish a dedicated Project Management Office



