# UTK Faculty Senate Budget and Planning Committee- Forum on Outsourcing Facts and Figures – April 26, 2017

***Overall Objectives***:
(i) to provide information about **budget implications of possible outsourcing** to the UTK/UTIA Faculty, staff and student community

(ii) to provide an **independent source of information** that the UTK and UTIA Chancellors might find of use in making their decisions once a detailed contract with outsourcing options is available.

***Specific Objective:***
***To consider components of the potential outsourcing of custodial, facilities services and grounds maintenance which <u>are not taken into consideration</u>*** in the variety of reports on outsourcing benefits that have arisen from the State of Tennessee's Office of Customer Focused Government's Strategies for Efficiency in Real Estate Management (SEREM)

These slides are a summary – the full report is available on the Faculty Senate Budget and Planning Committee website at http://www.nimbios.org/~gross/SenateBudgetPlanningCommittee.html

# Forum on Outsourcing Facts and Figures

**We focus on components of outsourcing impacts that <u>might reduce the potential savings</u>**. Our expectation is that, prior to any formal decision regarding outsourcing is made by the UTK and UTIA administrations, **analyses similar to those outlined here will be considered**. We note that the decisions about outsourcing in the Knoxville area are expected to be made through joint discussions between Chancellors Cross and Davenport, and their staffs.

# Forum on Outsourcing Facts and Figures

1. **The upfront costs of paying out annual/sick leave that has been accumulated by employees who could either leave UTK or be absorbed by an outsourced firm.**

Assumptions:
(i) For any UT employee whose position is replaced due to outsourcing, they will either be **hired by JLL or they will leave UT**.
(ii) All accumulated **annual leave will not be transferred** and will not be covered by JLL
(iii) All accumulated **sick leave will be transferred to and covered** by JLL for any employee who moves to a JLL position

Cost: 4% interest/yr, mean time to retirement/leaving of 5 yr
**$360,000**

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**2. Consideration of how any potential first-year savings may not be indicative of future year savings**

Costs associated to: loss of experienced employees, any reduction in service or increase in time to repair assets decreases expectations and the ability to retain quality employees, increased difficulty to attract high quality faculty

Cost: assuming yearly reduction of 2%, total savings over 10 years would be **91%** of the calculations based on $1^{st}$ yr.

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**3. Costs to the State of a UT employee who previously had health coverage, but loses it and moves to TennCare.**

Assumptions:
(i) A fraction of all outsourced employees will not accept a position with JLL
(ii) JLL employees who have not transferred from UTK will not have health insurance benefits and will require TennCare

Cost: 500 employees, 10% don’t move to JLL, $7000/TC enrollee = **$350,000**

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**4. Costs associated with the use of facilities for events in evenings and other times.**

Assumptions:
(i) Any activity that takes place outside the normal business hours may incur additional cost. Specifying the need of service for such events in the contract may be difficult because it may not be known in advance.
(ii) The outsourced vendor may not be able to provide such services in short notice, thereby limiting the ability of UT to organize such events.

Cost: A detailed inventory of event does not exist. This cost for a peer institution $500-600K/yr above their base contract. Our size is half: **$250-300K** per year in additional costs.

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**5. Costs associated with loss of Institutional Knowledge**

- Difficult to monetize: not a budgetary item
- We have looked at it from the point of view of the decrease in risk of failures (e.g. freezers, plumbing services, flooding, broken gas main). Cost may be quite variable.

Example: loss of a freezer: calculated repercussions in terms of time loss, research material lost (e.g. 90 well plates, reagents, samples). Calculations resulted in **$70,000** for this example.

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**6. Loss of academic connections**

Facility Services provides a wide array of **support for academic** areas at UTK that would **completely lost** if the employees involved were outsourced. This assumes that inclusion of activities not directly related to their core job responsibilities would not be allowed in any contract with JLL.

Cost: Considering our current understanding of the academic support provided by Facility Services, the estimated cost would be **$420,000/yr**

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## 7. Cost of Contract Supervision

Based on prior experiences with outsourcing custodial services with two separate vendors over the course of more than two decades, **UT will need to retain staff to monitor contract compliance by JLL**. Three managers covering the areas of maintenance, custodial and grounds will present an estimated recurring cost of **$300,000** in salaries, benefits and operations.

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**8. Loss of state tax revenue:**

We assumed that the following would take place:

<u>1. A reduction in local subcontracting</u>: **$278,000**
- Current non local: 19%
- New non local: 50%
Cost: assuming 6.5% corporate income tax and 7.5% sales tax
<u>2. Loss of sales taxes due to reduction in disposable income</u>
- 600 employees, $41,000 S+B
- 18% salary increase: **$130,000** sales tax increase
- 15% salary decrease: **$108,000** tax loss

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**8. Loss of state tax revenue:**

3. Loss of supervisory personnel: **$46,000**
- 5% supervisors, 75% reduction in numbers, $65,000 S+B
4. Unemployment payments and sales tax loss from unemployment
- 12% attrition rate
- 50% remain unemployed, $15,000 benefits
- 50% find job with 30% decrease in benefits
- **$540,000** unemployment benefits cost
- **$46,000** sales tax loss.

5. Loss of student employees
- 20% loss at $15,000 benefits
- Loss in tax revenue from sales tax: **$4,400**

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**Summary:**

The total costs identified above that could reduce any potential savings from outsourcing are over **$2.5M** annually. These estimates are based on **very coarse assumptions** however and we encourage the administration to **consider each of these components** particularly as they do not include any variance associated with major problems. They also do not include any of the variety of human capital concerns, the costs of any transition period, or the costs associated with any lack of timely response to campus maintenance needs.