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## Department of Administrative Services Cost Savings

### **ISSUE**

This **Issue Review** is an examination of cost-saving actions by the Department of Administrative Services (DAS) by outsourcing services. The Department has recently outsourced janitorial services for three buildings on the Capitol Complex and have restructured the way construction projects are managed with the goal of producing cost savings.

### **AFFECTED AGENCIES**

Department of Administrative Services

### **CODE AUTHORITY**

Iowa Code [chapter 8A](#)

### **BACKGROUND**

The [Department of Administrative Services Four-Year Strategic Plan FY 2012 – FY 2015](#) states the primary goal is “[t]o increase the efficiency and value of the Department of Administrative Services by controlling costs and assisting state government in reducing expenditures by a targeted minimum of 15.0%.” The plan further states, “Fundamental to all the initiatives within this plan are value versus cost, business case analysis, statewide reduction of the cost of government, ..... Business case analysis and long term effects of any DAS initiative will precede implementation of the initiatives within this plan.”<sup>1</sup>

The plan emphasizes restructuring of the DAS organization for efficiency and value in the last half of FY 2011 through FY 2012. The approach was to:

- Review existing structure and services for cost versus value based on business case analysis
- Rebuild organization around business case outcomes
- Adjust policy and procedures for efficient and user oriented delivery
- Use of technology coupled with policy/procedure adjustments for savings
- Provide vendor management <sup>2</sup>

A [business case](#) states the reasons for a project or task. It may be a structured, written document, or it sometimes can be a short verbal argument or presentation. The perspective of the business case is that the consumption of resources, such as money or effort, should support a specific business need. For example, a software upgrade can improve computer system performance, but the business case would link better performance with customer satisfaction, reduced staff time, or cost savings from reduced maintenance costs. A compelling business case captures quantifiable and nonquantifiable factors and benefits.

For the DAS, the use of the business case analysis is an informal approach to examining departmental operations. Service practices are examined, less expensive alternatives are

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<sup>1</sup> DAS Four-Year Strategic Plan, page 1.

<sup>2</sup> DAS Four-Year Strategic Plan, page 3.

identified, and supporting estimates are made. Proposals are brought to management. The case is argued and, if accepted by management, the change is implemented. The emphasis is on creating savings and reaching the 15.0% cost reduction goal. There is no standard template for the proposals, and the analyses are not organized and prepared as a formal document.

In the last two years, the DAS has outsourced two major activities after a business case analysis. Janitorial services have been outsourced for three Capitol Complex buildings, and the implementation of construction projects have shifted from a “general contractor” approach to a “construction manager” approach.

**JANITORIAL SERVICES**

The Department outsourced janitorial services for the Hoover, Grimes, and Jessie Parker buildings in lieu of filling 14 vacant positions. The DAS issued a Request for Bids (RFB) and 12 bidders made it through the selection process. Bids were made both with the DAS supplying green chemicals and with the bidder supplying green chemicals.<sup>3</sup> The contract for janitorial services was awarded to [ABM](#), a century-old company with corporate headquarters in New York City. The company offers a range of building management services throughout the United States and 20 international locations.

Staffing, equipment, supplies, and chemicals are provided by ABM, and cleaning is done during the evening hours. Cleaning staff hired by ABM are mostly part-time and do not receive benefits. This keeps ABM’s costs down and are less than if the DAS hired full-time staff. Each person cleans approximately 19,000 square feet and the DAS indicates this is a national standard. The DAS commented favorably on cleaning done at night because it avoids interference with daytime work. An analysis by the DAS found that energy costs for after-hours lighting are immaterial.

Cost Savings. The cost analysis by the DAS in **Table 1** shows an estimated cost savings of \$236,000 considering labor costs and cleaning supplies. Labor costs were determined based on wages for the 14 vacant positions that were not filled due to outsourcing. Additional savings not included are uniforms, communications, and equipment replacement.

**Table 1  
Cost Comparison for Janitorial Services**

Building	Current Labor Costs			Current Cleaning Supplies		
	Square Feet	Total Labor Costs	Cost per Square Foot	Associated Square Feet	Cost	Cost per Square Foot
Jessie Parker	85,847	\$ 104,679	\$ 1.22			
Hoover	262,945	319,437	1.21			
Grimes	104,643	113,613	1.09			
<b>Total</b>	<b>453,435</b>	<b>\$ 537,729</b>	<b>\$ 1.19</b>	1,255,636	\$ 28,781	\$ 0.02
Cost Comparison						
Current Costs	Current Cost per Square Foot	ABM Costs per Square Foot	Square Feet to Be Outsourced	Current Cost	ABM Cost	Cost Savings
Labor	\$ 1.19					
Chemicals	0.02					
<b>Total</b>	<b>\$ 1.21</b>	\$ 0.69	453,435	\$ 548,656	\$ 312,286	\$ 236,370

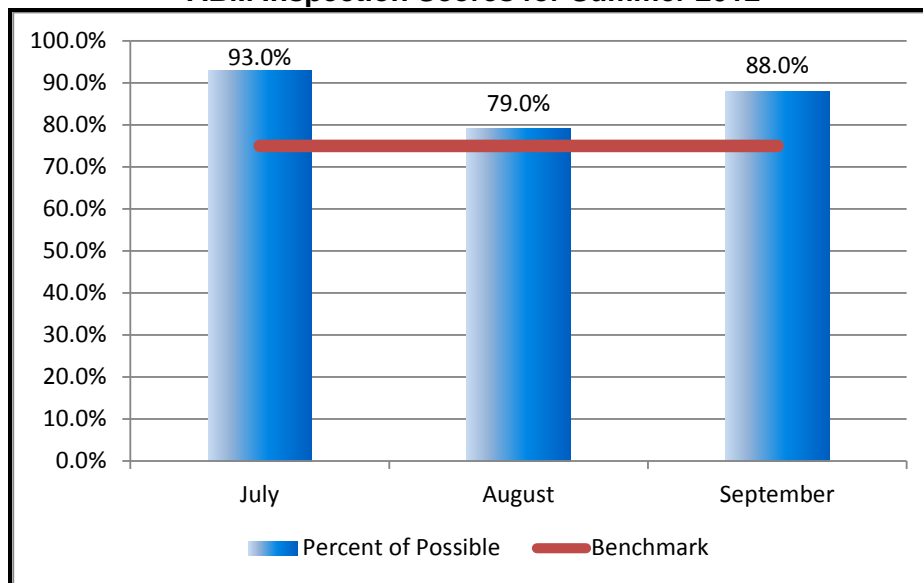
<sup>3</sup> “Green chemicals” are cleaning agents that are environmentally friendly and reduce or prevent pollution.

Quality Control. Quality control responsibilities are shared by ABM and the DAS during joint quality audits and walk-through inspections. The inspection form is completed jointly by the DAS and ABM managers. Originally, ABM completed the inspection form, but it was changed to a joint inspection with an agreed upon score. (See **Attachment A** for the inspection form.)

The inspection examines 43 items and ranks each on a 4-point scale: Meets Expectations (4), Good (3.5), Average (3), Needs Improvement (2.5), Unacceptable (2), and Retrain or Replace Employee (1). A web-based system is used by ABM to check that standards are met, tasks are performed, and to compile inspection scores. The DAS benchmark is set at 75.0% of the possible points or a score of Average (3) on the 4-point scale.

**Chart 1** shows recent combined scores for the outsourced janitorial services at the three Capitol Complex buildings. The July score of 93.0% translates to an average or mean score of 3.7, about halfway between Good and Meets Expectations. August drops to 79.0% for a mean of 3.2 or Average. September's score is 88.0% which translates to 3.5 or Good.

**Chart 1**  
**ABM Inspection Scores for Summer 2012**



Change in Quality of Services. To obtain an indication of whether the quality of janitorial services had changed with outsourcing, a brief survey was completed by people working in the three buildings served by ABM. The goal was to obtain approximately 20 to 30 responses from staff that have worked in each of the Grimes, Hoover, and Jessie Parker buildings for at least two years. The two-year requirement ensured the respondents had experienced both janitorial services from the DAS employees and from ABM employees.

The questionnaire was sent to the legislative contacts for State agencies housed in the buildings served by ABM. They were asked to have participants complete the questionnaires and return them to the Legislative Services Agency. A sample collected in this way is called an “availability” or “convenience” sample.<sup>4</sup> An availability sample is used to obtain an inexpensive

<sup>4</sup> An “availability” or “convenience” sample is a nonprobability method that uses readily available participants to get a gross estimate of the results without incurring the cost or time required to select a random sample. The advantages of this type of sampling are the availability and the quickness with which data can be gathered. The disadvantages are the risk that the sample might not represent the population as a whole, and it might be biased by the volunteers.

approximation of the population characteristics or trends. A sample as small as this one and collected in this manner does not allow for significant testing or projections. It can suggest broad consistent patterns, identify potential issues, and aid in deciding whether an issue is worth further research.

The Department of Corrections and Department of Education were not included in this brief survey. The Department of Corrections uses inmate custodians rather than the DAS or ABM's services to clean its area of the Jessie Parker Building. The Department of Education submitted data, but included ineligible respondents and altered the data format. This prevented it from being combined with the data from other departments.

In total, 62 individuals participated in the survey. (The questionnaire is **Attachment B**.) About three-fourths of the respondents reported that the quality of service had changed and the remainder did not see a change. Those that saw a change predominantly saw the change as negative. (See **Table 2**.)

**Table 2**  
**Number of Respondents**  
**Perceiving Change and the Quality of Janitorial Services**

Perceived Change in Janitorial Services	Positive	Negative	No	No			
	Change	Change	Change	Response			
	7	38	13	4			
	Excellent	Good	Marginal	Poor	Unaccept-	Not	
	(5)	(4)	(3)	(2)	able (1)	Apply	Average
Work areas are kept clean	3	25	18	12	2	2	3.3
Trash cans are emptied and liners are changed consistently	10	31	9	7	4	1	3.6
Floors are swept, vacuumed, and/or mopped regularly	3	17	16	16	10	0	2.8
Restrooms are kept clean and well stocked	4	21	16	18	3	0	3.1
Lobby, entrances, and hallways are kept clean	6	33	14	3	3	3	3.6
Conference rooms are kept clean	5	32	15	3	2	5	3.6
Responsiveness to special requests	2	9	13	4	4	30	3.0
Overall impression of the janitorial services	2	22	20	15	3	0	3.1
Percent of All Responses	7.1%	38.3%	24.4%	15.7%	6.3%	8.3%	

The respondents were asked how the services had changed. The bulk of the comments indicated that the buildings are not kept as clean as before. They observed that the bathrooms are not as clean; there is less vacuuming; carpets are stained; and dusting is not being done. There were complaints about no longer using trash can liners to save money with some commenting their trash cans are getting dirtier and not being cleaned. A few respondents asked for the DAS janitors to return, naming them by name and observing that they took pride in their work.

Those that cited a positive change described bathrooms as cleaner, less dust, and garbage always being emptied.

Most of the availability sample's ratings for the janitorial services provided by ABM fall in the Good and Marginal categories. It appears that trash cans are emptied regularly. Sweeping, mopping, and vacuuming received lower ratings. The lobbies, hallways, and conference rooms appear to get a little more attention than individual work areas.

These responses are fairly consistent with the results the DAS reports from the inspections. Scores from the DAS inspections tend toward the second and third categories (Good and

Average), and the availability sample chose the second and third categories most frequently (Good and Marginal).

It is likely the service quality declined with outsourcing of the janitorial services. The tradeoff is the decrease in costs. By the DAS's estimate, outsourcing produced a 43.1% cost reduction.

**Customer Satisfaction.** The DAS addresses customer satisfaction in two ways. First, it provides a customer service center with phone and e-mail access through its website ([http://das.iowa.gov/cust\\_serv/](http://das.iowa.gov/cust_serv/)). The website is designed as a general contact point for a variety of issues including building services and problems. Contact persons, quite often an administrative assistant, are identified for each agency in each building served by the DAS. Work requests or problems are usually handled through the contact person, but any State employee may report a problem or work request. Requests are entered into either the DAS or ABM work order system, assignments made, and work tracked to completion.

Second, the DAS also holds quarterly forums in each building served by the DAS. Forums generally include the department contact persons but are open to anyone. In addition to the contact person, others wanting to attend or assigned by their departments to attend are put on the forum notification list and sent meeting announcements. The forums provide input on a variety of issues for building services provided by DAS, including janitorial services. The minutes from the September meeting with departments in the Grimes Building are provided as an example in **Attachment C**.

## **CONSTRUCTION PROJECTS**

The Department previously used a "general contractor" approach in the past which was administered by the Architectural and Engineering Services. General contractors would bid the project, and the one with the low bid would win the project. The general contractor hired the subcontractors for the project. The general contractors could increase their profit on the project through additional charges with change orders, rework orders, delay claims, and other actions that generated additional charges. Projects typically ended up costing more than the original bid.

Under the "construction manager" approach,<sup>5</sup> the construction manager works for the State (DAS) on a per-project contract basis. The DAS regularly contracts with a half dozen construction managers. The construction manager replaces the general contractor, but is not in a position to profit from change orders, rework orders, delay claims, or similar actions. The construction manager breaks up the project into separate bid packages and hires the trade contractors to do the pieces of the project. To continue to be hired for future projects, the construction manager must meet budget and quality standards. That is, the construction manager supervises the projects to see that the work meets requirements the first time to avoid additional charges. If there are too many change orders, rework orders, or delays, another construction manager will be selected for future projects. This arrangement is intended to create competition among construction manager contractors to keep costs down. Since the individuals or firms are contractors, they are not on payroll and being paid and collecting benefits between projects. The DAS staff is responsible for project contracting and overseeing the construction managers.

The transition to a construction manager approach allowed the Architectural and Engineering Services Section to eliminate six positions through layoffs resulting in an annual cost savings of approximately \$730,000. The DAS estimates it will cost less to contract as needed for administrative services than to maintain staff full time.

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<sup>5</sup> Competitive bidding still takes place with the construction manager approach to meet statutory requirements.

**Table 3**  
**Project Management Costs as a Percentage of Total Construction Project Costs**

	FY 2011		FY 2012		Percent Change
	Project Costs	Percent of Total	Project Costs	Percent of Total	
Senior Resource Manager - Project Management Time					
DAS - various funding sources	\$ 1,285,731		\$ 900,247		
Funding from other agencies	645,549		233,262		
Total Senior Resource Manager - Project Management Time	<u>\$ 1,931,281</u>	2.60%	<u>\$ 1,133,509</u>	0.91%	-1.69%
Construction Manager Contracts					
DCI	\$ 5,000		\$ 587,047		
Story	0		49,901		
Samuels	0		443,157		
Weitz	0		63,300		
JE Dunn	0		150,182		
GTG	0		18,131		
Ryan Companies	0		81,486		
Heery - (DOC vendor only)	764,609		1,048,525		
Taylor Ohde Kitchell (TKO) - (DOC vendor only)	737,465		764,245		
Total Construction Manager Contracts	<u>\$ 1,507,074</u>	2.03%	<u>\$ 3,205,975</u>	2.57%	0.54%
Total Senior Resource Manager and Contract Manager Costs	\$ 3,438,354	4.63%	\$ 4,339,484	3.47%	-1.16%
Remaining Project Costs	<u>70,816,466</u>	95.37%	<u>120,565,998</u>	96.53%	
Total Construction Costs for These Projects	<u>\$ 74,254,820</u>	100.00%	<u>\$124,905,482</u>	100.00%	

Note: The DAS reports infrastructure expenditures for Department of Corrections capitals and Department of Administrative Services capitals for September through the end of the fiscal year.

According to the DAS, there was a net 1.2% reduction in project costs. Senior resource manager project costs decreased by 1.7% primarily due to the staff reduction, and contract management costs increased by 0.5% because of the additional work contracted out. These estimates do not include cost reductions due to fewer change orders, rework orders, delays, and other claims. The DAS also suggested the percentage reduction in project administration costs will vary with economies of scale. That is, a few large projects may have lower administration costs than a larger number of small projects. At this time, the DAS has not completed enough projects to evaluate the overall effectiveness of changing approaches.

### **BUDGET IMPACT**

The DAS is striving to meet the Governor's stated goal of a 15.0% reduction in State expenditures. As indicated by the four-year strategic plan, the Department will outsource functions when the action is supported by a business case analysis to cut costs or produce efficiencies. As of November 2012, the two discussed functions have been outsourced. At this time, there are no plans to outsource other functions.

The DAS has eliminated 14 vacant janitorial positions and laid off six individuals in the Architectural and Engineering Services Section. The DAS reported that ABM can supply replacement janitors by hiring mostly part-time employees that do not receive benefits. The cost savings for outsourced janitorial services is estimated to be \$236,000 or 43.1% of the estimated cost for the services performed by full-time State employees. Contract managers replaced full-time employees and only work on an as-needed basis. In evaluating savings, the DAS assumes administrative costs to be a relatively constant proportion of costs. When comparing construction administration costs for the two approaches, the DAS estimates administration consumes 1.2% less of the budget for all construction projects. The overall effectiveness of the

construction manager approach will need to be reexamined after enough projects have been completed to provide adequate data.

In addition to outsourcing, the DAS has taken steps toward reorganization and consolidation. For example, the Labor Relations Team was relocated and reorganized to directly report to the Director and General Counsel, thus increasing management involvement in negotiations and decisions. The Core Finance group was recently reorganized and positions were eliminated when an analysis identified some duties as unnecessary or redundant. There has been turnover among DAS supervisors. Since January 2011, 37.8% (14) of the supervisors are no longer employed by DAS. They were replaced by four promotions and seven hires from outside the agency, bringing the total new supervisors to 32.4% (11) of the total DAS supervisory positions. Throughout the Executive Branch, 16.4% of the supervisors left during this roughly 18-month period, and after promotions and hirings 11.2% of the supervisory staff were new to their positions.

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