Transforming Tennessee for Tomorrow (Project T3)

State of Tennessee – Department of General Services

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**Summary**

In 2011, Tennessee Governor Bill Haslam challenged the members of his cabinet to find the most efficient and effective way to run state government. The Tennessee Department of General Services (DGS) took the Governor’s charge seriously and began looking for ways to increase efficiency and reduce costs within the department. One of the major responsibilities of DGS is managing the bulk of the State’s extensive real estate portfolio, so the department launched an effort to research best practices in real estate service and management. This effort included consulting with innovators in both the public and private sectors, such as the states of Texas and Virginia, and space-innovative companies like Nissan and Mars Petcare, among others.

After assessing the pros and cons of the various public and private sector approaches, DGS analyzed its own real estate portfolio to look for ways in which it could apply these identified best practices into managing Tennessee’s real properties. This effort led to the concept of Transforming Tennessee for Tomorrow (Project T3). The initial goals for Project T3 were to reduce the State’s real estate footprint by migrating from leased space to owned space, to reduce costs, to improve office environments and make them more efficient, and to assist in changing the culture of the workplace. To date, Project T3 and a resultant project to decommission old State buildings have reduced the portfolio by more than 500,000 square feet, and by the end of 2014 that amount will be doubled. Project T3 has not only changed the way Tennessee manages its real estate and saved substantial money for the State, but it has also helped change workplace practices and activities in ways that make employees happier, more comfortable, and more productive.
1. **What problem(s) is the program addressing?**

Project T3 triaged multiple longstanding problems not only within the portfolio’s buildings, but also within the culture of the State’s management and workforce. Tennessee’s real estate strategy operated on a run-to-fail model. Necessary scheduled maintenance items, both capital and routine, were often given low priority and scarce State resources were redirected to other areas of government. As State-owned structures, systems, and work spaces deteriorated to the point of being unusable, State-owned space began to be underutilized in favor of newer, more costly leased space. Internally, State workspace used office layouts from previous decades: High walls, oversized offices, ineffective floor plans, and outdated furniture. These negative features, combined with some actual life safety issues for employees, made it essential for the state to change its workspace and its workplace culture.

2. **When was the program implemented, and is it still operational?**

Project T3 was conceived in October 2011 and work began upon receiving state appropriations in July 2012. Project T3 itself also sparked additional cost-saving and cost-avoiding real estate initiatives. A follow-on project – Decommissioning, or Project T3 Phase 2 -- and the original Project T3 are slated for completion by the end of fiscal year 2014.

3. **How does the program result in dollar savings and/or efficiency for customers? For the owner agency?**

Project savings are realized on multiple fronts for multiple stakeholders. First, leases and payments on almost 700,000 square feet of existing leased have been or will be canceled. Second, agency footprints in State-owned buildings have been decreased, in most cases by
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approximately 20%, which allows for optimal occupancy levels in State-owned assets, lowering our real estate cost per FTE. Thirdly, via decommissioning efforts, the State is disposing of six outdated buildings with an aggregate deferred maintenance tab of approximately $85.5 million and with operating expenses much higher than industry standard. Project T3 has emphasized creating work spaces that are more comfortable and efficient and that promote great collaboration among employees while preserving flexibility and privacy.

4. **Is the program cost-effective? Be specific to benefits and costs and include start-up and annual costs and efficiency.**

The project is cost effective for many reasons. The cost to pay rent to a landlord, to pay operating expenses in both owned and leased space, and to operate a building that is 50% utilized are quantifiable and represent, in Tennessee’s case, a significant sum of money. For example, the typical State-owned facility should operate (outside of capital expenditures) for $6-$7 per square foot. The typical State of Tennessee lease rate for office space was on average $10 per square foot, sometimes exclusive of operating costs. The State-owned buildings identified for renovation in Project T3 all suffered from serious inefficiencies in layout and operation, and they often contained vacant or unused space. Renovating these buildings to make office configurations and workspaces more efficient provided space for relocating State agencies that were previously housed in much more costly leased space. Overall, Project T3 is projected to reduce the State real estate portfolio by 1 million square feet by the end of 2014, and to avoid $100 million in costs over 10 years.
5. **Who are the beneficiaries of the program?**

There are multiple beneficiaries as a result of Project T3. First and foremost are the taxpaying citizens of Tennessee. The money previously spent on real estate has been drastically reduced and the savings can be directed to other projects such as education and health care that improve the quality of life for all Tennesseans. Another beneficiary is the State workforce. Project T3 has eliminated most of the State’s outdated, ineffective, and sometimes even dangerous workspaces. State employees now work in environments that are contemporary, comfortable, and well-lighted, and which are designed to promote workplace activities and habits that increase productivity, collaboration, and good health.

6. **What is the feasibility of the program being used by other states?**

The probability of other states pursuing efforts to Project T3 is likely. In the public sector – and private sector, for that matter – saving money on real estate to help achieve other operational and financial goals is a concept that has not been fully explored. Also in the public sector, there are few effective areas for reducing costs and creating savings without restricting the services provided to citizens. Real estate is one of those areas, and other states will probably pursue their own initiatives similar to Project T3. We understand that West Virginia and Missouri are among states considering such efforts.