Cross-sector Partnerships: A New Era of Public-Private Interdependence

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Executive Summary

Federal, state and local government in the United States is facing a growing challenge to maintain and improve the quality of services it provides, while dealing with a difficult fiscal environment that has not fully recovered since the 2008 financial crisis. In this context, government needs to find novel ways to meet the needs of its citizens without simply expanding its debt. Cross-sector partnerships – collaborations between the public and private, or non-profit, sectors – can enable government to access external financing and expertise to help fund projects and improve service quality.

Cross-sector partnerships (CSPs) range from one-off collaborations, such as putting on an event, to deep and embedded partnerships that last for decades, in which the private sector plays a key role in designing, building, operating or managing a public service. CSPs offer a fresh approach to public service delivery. Traditionally, when the private sector has been involved in the delivery of public services, it has been through a conventional contracting arrangement in which government retains control of the service specification, and the private sector is required to meet pre-specified outcomes. CSPs invite the private sector to take a more proactive role in service delivery.

Rather than simply delivering what the public sector asks of it, a CSP can enable the private sector to help design a service and offer guidance on a contract specification. This collaborative approach, if structured appropriately, can enable the public sector to unlock access to the efficiency and sector expertise of the private sector, which may be beyond its own capacity and capabilities.

The State of Tennessee pursued just such a CSP when it chose to find a private sector partner to deliver a substantial proportion of its facilities management portfolio. In 2012, the State found itself with a facilities management operation consisting of 430 individual contracts with private firms; a backlog of maintenance requests, code violations, and life safety issues; and a budget deficit. Rather than simply cutting back its services, Tennessee chose to issue a Request for Proposals (RFP) for a single private sector firm to bid to take over a portion of its facilities management portfolio. A 2013 pilot project procured through an RFQ and competitive negotiation process produced impressive results from the management of 10 million square feet of real estate, so by 2016 Tennessee was ready to engage a vendor in a more comprehensive relationship for the balance of its 90 million square feet portfolio.

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The 2013 procurement utilized the philosophy behind an approach to outsourcing called "Vested Outsourcing" and by the 2016 expansion of the initiative, Tennessee formalized that approach as "Collaborative Value Development." In the 2016 procurement, instead of following a traditional contracting model, as it had in the past, Tennessee invited private firms to participate in its 'collaborative value development approach', in which firms were invited to specify appropriate key performance indicators (KPIs), and how they would meet them, prior to issuance of the RFP. Furthermore, having selected a contractor, Jones Lang LaSalle (JLL), the State maintains a hands-on role in its facilities management portfolio, working closely with JLL's leadership to continually improve facilities management services, drive cost savings, and improve performance.

To date, Tennessee's cumulative 4-year cost avoidance stands at $40.3 million, with savings improving annually – $5.6 million (2014), $7.7 million (2015), and $12.9 million (2016) and $14.1 million (2017)[1]. At the same time, customer satisfaction with Tennessee's facilities management services has improved from 62% to consistently above 90%. This paper sets out how the success of the model was based on the State meeting 'critical success factors' in the design of a CSP, including pre-RFP communication and research, relationship building, and strong lines of communication between the state and its vendors. It also describes the potential pitfalls of CSPs, which the public sector must consider prior to embarking upon the process of establishing such a partnership. Such pitfalls can include the possible loss of assets to the private sector, the premium that private firms may charge for working with the public sector in an uncertain political environment, and the need to communicate carefully the role of the private sector in managing public assets. The latter is an area in which the State of Tennessee struggled, with public sector unions able to leverage a narrative describing public sector job losses as a result of private sector involvement in facilities management delivery.

In spite of their risks, CSPs offer an exciting means for government to pursue novel and cost-effective approaches to delivering improved services and facilities at lower cost. The Tennessee facilities management example is one which we expect other states to follow in future years.

Introduction to Cross-sector Partnerships

Government is facing daunting challenges and very often it does not have the ability to respond on its own. At a federal level, the budget deficit remains intransigent. Meanwhile, across the country state governments are still struggling to come to terms with the effects of the 2008 financial crisis, and it is predicted that more than half will face revenue shortfalls in 2017[2]. In this context, states must also deal with an ageing population, continued pressures on the criminal justice system, and demands to increase funding for public services such as higher education. With this backdrop, it is unsurprising that government often struggles to address long-term infrastructure requirements, and is in need of unlocking innovation to release savings and improve services. Given the complexity of the issues it faces, government's best solutions may come from collaboration among diverse experts across sectors. As Goldsmith and Egger put it, "We can't solve complex horizontal problems with vertical solutions."[3]

Government collaborations with the private sector are often called Public-Private Partnerships (P3). P3s traditionally refer to large infrastructure projects that require private sector funding, and often involve a private partner designing, building, operating and managing a public facility. However, partnerships between the public sector and other actors are far more varied than this, and encompass private firms, non-profits, faith-based organizations, academia and others. The conception of a 'P3' is overly-restrictive to capture the diversity of activity that occurs between these different sectors.

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[1]Webinar: A Managed Service Contract for Facilities Management in Tennessee, National Association of Chief Administrators, February 2017.

[2]Thirty-One States Face Revenue Shortfalls for the 2017 Fiscal Year, (MultiState Insider, January 3, 2017), Ryan Maness, https://www.multistate.us/blog/thirty-one-states-face-revenue-shortfalls-for-the-2017-fiscal-year

[3]"Governing by Network: The New Shape of the Public Sector, Stephen Goldsmith & William Eggers, The Brookings Institution, 2004. pg. 22.

Instead, we refer to partnerships between the public sector and other sectors as 'cross-sector collaborations'.

In this paper, we seek to explain how these collaborations can help government to overcome some of the more complex challenges that it faces. We do this by referring throughout to a case study from the State of Tennessee, which recently entered into a CSP with a private firm, JLL, to deliver much of its facilities management services.

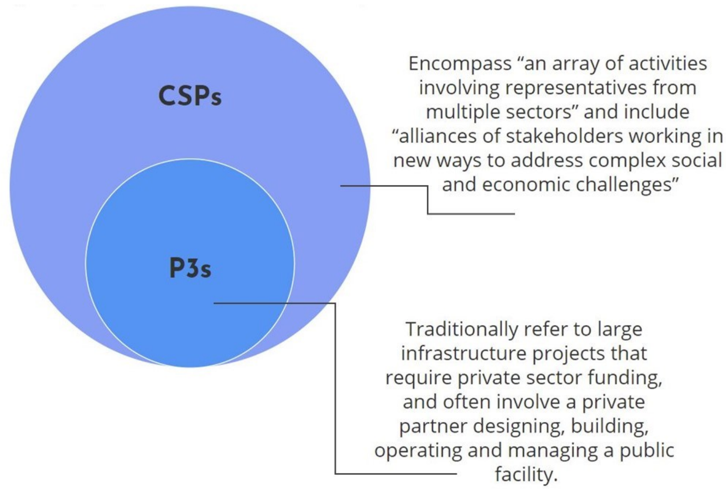

Figure 1: Comparing Cross-Sector Partnerships and Public-Private Partnerships

Defining Cross-Sector Partnerships

In its essence, a cross-sector partnership encompasses "an array of activities involving representatives from multiple sectors" and includes "alliances of stakeholders working in new ways to address complex social and economic challenges", as Living Cities defined the term[4]. By definition, a cross-sector partnership (CSP) involving the public sector must entail joint-working between a public and non-public entity. CSPs can encompass a wide range of models, from simple one-off collaborations, to variants of traditional contracting arrangements in which the non-public actor (referred throughout this paper as the "private" partner) has greater freedom and flexibility to deliver on a pre-specified contract, to models that truly wed a public and private partner together in a long-term arrangement in which both share risk and reward. Indeed, we consider that a P3 is a sub-category of a CSP. In this paper, we are interested in discussing the role that CSPs can play in the longer-term delivery of public services or facilities.

CSPs invite private entities to play a greater role in public service delivery and management. The public sector is particularly attracted to using the ingenuity and efficiency of the private sector to help it deliver services in novel and cost-effective ways. Although the public sector has innovated in delivery service in many ways, it is by nature relatively risk-averse, and focused on delivering a mandated service to constituents rather than constantly innovating to respond to customer needs and reduce costs.

In order to harness the inherent focus of the private sector on achieving the most efficient and effective outcome at the lowest price, the public sector faces the challenge of understanding the best way to engage the private sector without relinquishing ultimate control of a service. It must also continue to guarantee oversight to constituents and ensure value-for-money. Such challenges can appear daunting to a public sector body not used to engaging the private sector in a collaborative model.

In Tennessee, the State embarked on such an effort to harness the best outcome for the best value. It deployed a CSP using the innovation and efficiency of the private

[4] What Barriers? Insights from Solving Problems through Cross-Sector Partnerships, Alison Gold, Living Cities 2013.

sector while maintaining oversight to ensure accountability of state government. The Tennessee case study illustrates how other governments can be successful in embracing CSPs.

The Use of CSPs in Facilities Management: a New Approach to Drive Better Outcomes?

THE CONVENTIONAL MODEL OF PRIVATE SECTOR INVOLVEMENT IN FACILITIES MANAGEMENT

Since the 1990s, facilities management in the public sector has gradually shifted from predominantly in-house methods towards various outsourcing models, while the number of direct hires of custodians, repairman, and security guards has shrunk.

Traditional in-house facilities management entails government employees self-delivering facilities services. Early outsourcing approaches utilized contracts held with single-service providers – typically a local or national service provider offering a limited range of facility services, such as janitorial services, plumbing services, etc. In the case of Tennessee, 430 such contracts were held as recently as 2013. A slightly more efficient outsourcing model bundles several services, typically related, under one contract or supplier. In the UK, bundled facilities management outsourcing to central and local governments has grown annually at a rate of 3% and is projected to continue steadily through 2019[5]. Yet more efficient are outsourcing models whereby a professional facilities management firm holds a single contract with a government entity to provide an exhaustive set of services, or if desired, subcontract them out.

Though some government entities maintain in-house facilities management practices, many federal, state, and local governments have gradually moved towards increasingly efficient outsourcing models with dwindling in-house teams primarily responsible for contract management, oversight, and governance.

Image 1—Before and after corrosion of main water pipe in East Tennessee Regional Health, Knoxville

THE TENNESSEE MODEL

A New Direction

Upon taking office in January 2011, Governor Bill Haslam echoed his belief that the State of Tennessee must provide high quality services at the lowest possible cost in light of the tightening fiscal environment[6]. Shortly thereafter, State of Tennessee Real Estate Asset Man-

[5]Facilities Management Outsourcing – Central and Local Government Sector Report – UK 2015-2019 Analysis – New Report by AMA Research.
[6]Governor Bill Haslam's Inaugural Address, January 15, 2011.

agement (STREAM), a new division within the Department of General Services (DGS), was created via executive order. STREAM was intended to improve management and maintenance of general government office properties[7].

Status of DGS Facilities Management

In 2011, DGS' facilities management systems were unacceptable. Wide-ranging problems, including issues with operations, staffing, and funding undermined the Governor's visions for heightened efficiency. As such, DGS released a Request for Proposal (RFP) for a contractor to assess the condition of facilities and suggest a long-term strategy for the portfolio. JLL won the contract over four other private companies. In June 2012, JLL shared its overview with senior DGS officials, and ultimately the State Building Commission. JLL pinpointed low-quality services and high costs as overarching problems perpetuating facilities management inefficiencies[8].

Image 2—Inspection of fresh air filters in War Memorial Offices

Low-Quality Services*. Despite lacking a formal and consistent customer satisfaction process, it was known that tenant satisfaction was low. DGS lacked qualified staff, as well as training programs and technical education opportunities to bring staff to a sufficient level. Accordingly, dangerous working conditions emerged and slow service persisted.*

High Costs*. DGS now widely acknowledges that the existing model was essentially 'Run to Failure' (RTF) maintenance. There was no tracking system for repair and maintenance orders. Energy-inefficiency and reactive maintenance led to a ballooning deferred maintenance balance, and DGS did not assess its performance against industry standards.*

These operational inefficiencies led to unsatisfactory facilities, which in turn prompted some state agencies to begin leasing non-state owned facilities. Though these facilities were more reliable, they were more costly to the State.

Private Sector Solution

When JLL shared its overview of the facilities management practices, it also asserted that by reconfiguring its facilities management approach, DGS could save roughly $40 million over five years[9]. DGS' management faced two possible solutions: invest in enhancing internal capabilities in facilities management, or pursue a private sector provider to provide such services.

In line with the Governor's vision for business models' attaining higher quality services at lower costs, the decision was made to engage a private partner for facilities management. DGS believed this decision would allow Tennessee to partner with an industry leader in a sector outside the government's core competencies, thus enabling it to draw on industry best practices, access the most modern technologies, and guarantee staff entry to the latest sector training.

DGS initiated a subsequent round of bidding and in early 2013 selected its partner for five years. JLL won the contract covering DGS' roughly 10 million square feet of real estate[10] – approximately 10% of the total State portfolio of real estate[11].

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[7]Real Estate Strategy, State of Tennessee Real Estate Asset Management, Department of General Services, February 2017.

[8]A Managed Service Contract for Facilities Management, NASCA Roundtable, Nashville, TN, May 3-4, 2017.

[9]Pioneers: A Managed Service Contract for Facilities Management in Tennessee, presentation for the National Association of Chief Administrators, Olympia, WA, October 4-7, 2016.

[10]One other firm, CBRE, bid on this contract.

[11]Pioneers: A Managed Service Contract for Facilities Management in Tennessee, presentation for the National Association of Chief Administrators, Olympia, WA, October 4-7, 2016.

Operationalizing the Strategic Partnership

The State of Tennessee pursued a contract mechanism with well-defined roles and responsibilities for both DGS and its private sector partner. The 2013 procurement utilized the philosophy behind an approach to outsourcing called "Vested Outsourcing" that is highly collaborative and is centered on buying results instead of tasks or activities[12]. While the full methodology of the vested process was not formally utilized until Tennessee's second facilities management procurement in late 2016, the overall approach was clearly driving the initiative. This approach helped the State take steps to ensure the private partner was positioned within the State for optimal communication and service delivery. Notably, Tennessee made a concerted effort to have an active role in managing outcomes, but took a hands-off approach when it came to overseeing processes to reach these outcomes.

Key to this was the governance process. Quarterly meetings were held with senior state and JLL officials to review activity to date and plan for the upcoming quarter. Leadership from both parties took these meetings very seriously, and when necessary pivotal course corrections were made to ensure outcomes were being met. Lastly, the partnership was centered on an outcome-based contract with KPIs leveraged to assess partner performance. JLL's fee was set to 50% at risk, with scoring against these KPIs dictating payments.

Image 3—Before and after grease trap replacement at Law Enforcement Training Academy

Outcomes

The partnership with JLL has produced significant cost savings for Tennessee as well as higher customer satisfaction in DGS. To date, DGS' cumulative 4-year cost avoidance from the 2013 contract with JLL stands at $40. million, with savings improving annually – $5.5 million (2014), $7.8 million (2015), and $12.9 million (2016) and $14.2 million (2017)[13]. These savings have largely been derived from lower operating costs – predominantly the product of self-performed work of JLL employees, such as better-trained staff conducting more preventative and predictive repairs and maintenance. Additional savings have come through procurement savings (better subcontractor pricing through economies of scale), and prioritizing energy efficiency (lower utility expenses). Savings have grown each year and are expected to increase further in 2017–18.

Overall, JLL has performed well against the established KPIs. In 2016, JLL met or exceeded seven of eight goals, the exception being client satisfaction[14]. In FY2016, 87% of clients were reportedly satisfied or highly satisfied with JLL's work, narrowly missing the 89% target.

In terms of personnel, JLL made efforts to retain interested and qualified state employees during the transition. At the end of FY2O16, 76 JLL employees were dedicated to DGS facilities management, down from 131 when the State of Tennessee managed the work. Of

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[12]CVD is a procurement method approved by Tennessee's State Procurement Commission and based on the Vested™ methodology, a collaborative contracting model at the University of Tennessee at Knoxville.
[13]A Managed Service Contract for Facilities Management in Tennessee, webinar for the National Association of Chief Administrators, February 2, 2017.
[14]State of Tennessee 2015/2016 Year-End Report, 2016.

these existing 76 JLL employees, 25% were retained and transferred over from the State. Per JLL data, these retained employees earn 33% more on average than when they worked with the State.

Tennessee's success with this CSP can be replicated for services beyond facilities management. As government tries to do more with less, innovative partnerships can deliver greater savings and efficiencies. In this context, we anticipate that the demand for well-designed CSPs will only increase as both public and private partners understand their benefits.

A timeline illustrating the process of the CSP development in Tennessee is shown below:

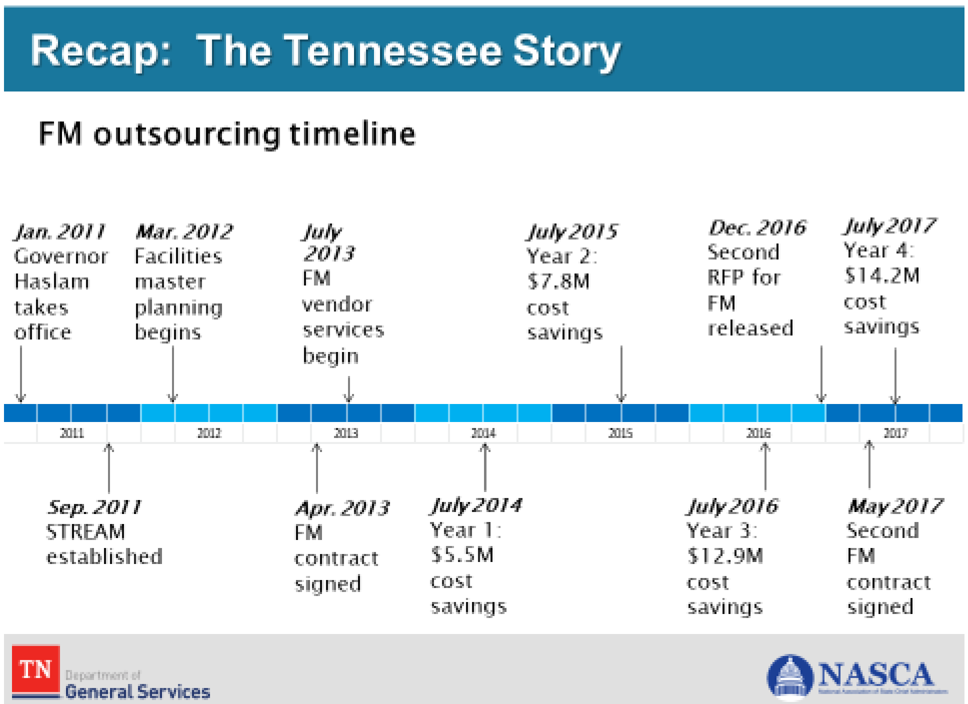

Figure 2: DGS Facilities Management Outsourcing Timeline[15]

[15]A Managed Service Contract for Facilities Management, NASCA Roundtable, Nashville, TN, May 3-4, 2017.

Why Could Cross-Sector Collaborations be Beneficial for State Governments?

Many US states have a growing need for infrastructure upgrades or efficiency gains to balance budget deficits. For example, The American Society of Civil Engineers (ASCE) recently highlighted $3.6 trillion worth of urgent state and local infrastructure investment needs[16]. Meanwhile, a 2015 Governing Institute survey found half of state and local public officials believe that a lack of infrastructure investment is their most significant financial problem[17]. CSPs can be a valuable asset to address both of these needs; private finance can help to provide the up-front capital necessary to kick-start infrastructure projects that will prove cost-effective in the long-term, but are cost-prohibitive in the short-term.

Meanwhile, the use of the private sector in the design and delivery of services can yield efficiency gains, both through enabling the public sector to gain access to the most up-to-date technology and best practices, and through the innate mission of private sector firms to run services in a cost-controlled way. Indeed, the outcomes achieved by JLL in both of these areas in Tennessee exemplifies the potential gains.

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Key to the success of involving the private sector in a public sector project is to see the wider benefits that a partnership can bring, aside from simply accessing funds or contracting out services. Crucially, a CSP can enable the public sector to access a level of innovation that it may not normally be able to access.

For example, if a public sector body wished to contract out delivery of certain services to the private sector, but did not actively engage with private sector firms prior to doing so; it is likely that it would design a contract to deliver services with a similar specification and at a similar or slightly reduced cost to pre-existing services. This would achieve little beyond modest cost savings and a reduction in remit for service delivery, while shifting the burden towards contract management – a labor-intensive skill in its own right. However, involving private sector firms at an earlier stage of the process, and in a more substantive role, could yield far greater benefits.

For instance, private sector firms could be asked to help design a service specification itself. While intuitively this may seem like an approach that would give undue influence and advantage to certain firms during a subsequent tendering process, if managed appropriately, the public sector agency could leverage private sector firms' depth of knowledge of designing and delivering similar services in other areas to build in the latest innovations into the service specification. This could help to improve service quality and reduce the cost of running the service. Furthermore, a contract could be structured such that it gave the private sector partner significant scope to innovate to achieve pre-specified KPIs, without building in stringent output-based targets that effectively lock a private sector firm into delivering services in much the same way as before.

[16] Report Card for America's Infrastructure, American Society for Civil Engineers, 2013.

[17] Understanding the Risks & Rewards of Public-Private Partnerships, Governing Magazine, 2016.

Rather than relinquishing control of the delivery of a service or management of a facility, a well-designed CSP can actually give greater flexibility and oversight to government. Take the example of Pennsylvania's Rapid Bridge Replacement Project. In this public private partnership, Pennsylvania has handed responsibility for the construction, operation and management of all of the bridges in the state for 25 years to Plenary Walsh Keystone Partners, a consortium of Pennsylvania investment banks and construction companies. In this model, the Pennsylvania Department of Transportation (PDOT) will make availability payments contingent on metrics such as bridge repair and minimal traffic disruptions during construction. The long-term and comprehensive nature of this partnership means that Pennsylvania legislators will not have to fight for the release of funds to construct or repair bridges on a per-project basis, nor will PDOT need to tender for sub-contractors on a per-project basis, something that would inevitably drive up costs. At the same time, the State is only paying for outcomes that meet the specifications that it agreed to. The State thereby ensures higher quality infrastructure for residents, and value-for-money in the long-term, while freeing up state workers and legislators to focus on other issues. This structure also affords the private partner significant scope to innovate in order to achieve its KPIs[18].

Through a combination of enabling access to private capital, private sector innovation, and enabling the public sector to specify the outcomes that it desires from a project, CSPs can be an attractive option for the public sector. CSPs may be most desirable where government is lacking the up-front capital to invest in a project with predictable long-term gains, or where it is seeking to inject innovation into the delivery of services, both to cut costs and to improve service quality.

What Are the Risks Associated with Cross-Sector Partnerships?

Despite the potential benefits associated with CSPs, they are not without their risks. A public sector body must be cognizant of the drawbacks of a partnership in order to derive maximum benefit from it. The following risks are those which should be at the forefront of thinking when determining whether to enter into an arrangement.

The costs and benefits of a project may be difficult to calculate. The decision to involve the private sector in the delivery of a public service or facility can only be made after a public sector body compares the costs of delivering a project with and without private sector involvement. This process is fraught with difficulties for the public sector. First and foremost, it can be difficult to capture all inputs and outputs in a cost/benefit model, especially when some may be unknown. In particular, calculations often under-estimate the up-front costs of delivering a new facility (if a project entails new construction), and the long-term maintenance and decommissioning costs of a project are often underestimated or excluded. The public sector may also be unsure of how to quantify some costs and benefits, such as those concerning public health. Secondly, the process becomes even harder when considering that some of the benefits of private sector involvement are not certain at the outset, and are therefore not easily calculable. For instance, the private sector often promises efficiency gains, but how can a public sec-

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[18]Understanding the Risks & Rewards of Public-Private Partnerships, Governing Magazine, 2016.

tor body be certain of the extent of these efficiencies? And how should the public sector body factor in the value of any promised improvements to a service or facility as a result of private sector involvement?

Private sector involvement can potentially strip the public sector of profitable assets. Some of the most high-profile CSPs entail the leasing of a public asset to a private organization for a fixed period of time. The Chicago Skyway is a prominent example of this, in which the City of Chicago leased the asset to a private consortium for 100 years. As part of this, and many similar arrangements, the private partner retains all of the profits of running the service or facility – in this case through the collection of tolls from Skyway users. A private sector partner would not choose to engage in such an arrangement unless it believed it could be profitable to run a public asset, and therefore the public sector risks losing out on profitable assets under such models.

Political instability can push up the price-tag of private sector involvement. Some of the most promising CSPs entail long-term partnerships in which a private partner has the scope to innovate and improve a service over a long period of time. Such arrangements provide greater incentive for the private partner to invest intellectual and financial capital into the project, since it will be involved for long enough to reap some of the rewards from doing so. However, private firms have few greater fears than uncertainty, and there are few more uncertain environments than politics.

"The risk of political instability and changes in policy from one administration to the next can act as a significant deterrent to private sector involvement in public service delivery."

The risk of political instability and changes in policy from one administration to the next can act as a significant deterrent to private sector involvement in public service delivery. As a means of mitigating this risk, the private partner will often seek to charge a premium for its involvement in a project, or demand break conditions to a contract, which can themselves pose significant risks for the public sector.

The involvement of the private sector in delivering a public service necessarily raises questions of public oversight. CSPs not only entail a transfer of public funds to the private sector, they also entail, to varying degrees, the transfer of power. This is particularly the case in P3s, where a private partner may win comprehensive rights to manage a public service on its own terms for a lengthy period of time. Such models present complex governance challenges for the public sector, which on the one hand aims to secure the best quality service for its constituents, but on the other hand has a duty to remain transparent to voters. The demand for transparency becomes much harder when a private partner, keen to preserve its intellectual property and competitive advantages, is involved in the delivery of a service.

Finally, and as the previous points demonstrate, CSPs can be very complex, and require built-up expertise in order to succeed. A number of public sector bodies are now establishing dedicated centers of expertise and knowledge on CSPs as they seek to increase the benefits they gain from such partnerships. For instance, the State of Virginia has established an Office of Public Private Partnerships, and other states, including Texas, Illinois, Florida and Arkansas, have followed with their own variants. Such centers will enable public bodies to build up internal expertise on CSPs and ensure that lessons learned from one project are applied to the next. In the absence of such dedicated internal resources, public bodies face the challenge of exploring a CSP alone, or paying for external expertise, such as a consultancy firm. Neither of these options tends to be an appealing one.

Despite these challenges, the benefits to cross-sector collaboration can be significant, as the case study of Facilities Management in the State of Tennessee has shown. Furthermore, as more public bodies attempt their own CSP, the body of knowledge on key success factors of such models is becoming more extensive, and more readily available to all. As this process continues, the barriers to entry for a public sector body seeking to develop a CSP will diminish.

What Are the Key Features of a Successful Cross-Sector Partnership?

A successful CSP must counter to the risks identified in the previous section. Multiple researchers have attempted to study CSPs and understand the key success factors of those partnerships that prove effective. An author of this paper (Paul Campbell) brought together the key tenets of this research in a previous paper exploring the pre-requisites for an effective P3[19]. We believe that this framework is relevant to CSPs and summarize it here in the form of five key success factors. To contextualize and illuminate these success factors, we also assess how well the State of Tennessee adhered to them in the development of its partnership with JLL.

Key success factor 1: Pre-RFP communication and research. Partners must take the time up front to clearly formulate and articulate the fundamental issue that they are attempting to solve. CSPs often fail not because of flawed execution but rather because of flawed planning or problem formation. Before any RFP is released, proposals are submitted, or winners are selected, organizations need to communicate with each other to clearly articulate the problem that needs to be solved. Crucially, the public sector body should not be afraid of involving the private sector in this process. If carefully managed, such a process need not give undue advantage to any one firm during the tendering process, and can ensure that an RFP is designed in a way that it is most likely to create a wide, rich and innovative response. It is at this phase that a public body must also carry out a rigorous cost/benefit analysis in order to fully understand the risks and rewards of private sector involvement in a project.

The Tennessee response: In Tennessee, the State employed a philosophy that is embedded within an approach called "Collaborative Value Development" (CVD). The CVD process leverages "win-win" thinking based on game theory, and is "centered on buying results instead of tasks and/or activities with the conscious effort to use incentives to drive process innovation."[20] The key is that all parties are aligned to the same quantifiable objectives. While the CVD methodology was not fully deployed until 2016 when the facilities management initiative was expanded further, the core philosophy was influential on the project design and delivery from the outset.

In addition, the State and JLL brought a public-private mindset of interdependence to the initiative. Too often in government, the procurement process pits public and private as adversaries rather than partners. Stephen Goldsmith wrote in a 2014 article on public-private partnerships that "in advising a major U.S. city, a senior official once stated that 'a contractor is nothing more than someone trying to get money out of the government's wallet.'"[21] This mindset will never lead to a true partnership.

The goal of the vested process is to create a contract with incentives that balance risk and reward to encourage supplier innovation. The methodology is designed so that "when properly structured, the pricing model should generate returns in excess of target margins for both parties when the parties achieve the desired outcomes."[22] Tennessee has now fully adapted the vested process into its procurement code and procedures. It is called "Collaborative Value Development" (CVD). "CVD is an opportunity for Qualified Respondents and the State to hold one or more collaborative events to engage in an in-depth discussion concerning the needs of the State… [and] develop innovative solutions that will ultimately reduce costs and improve contractor performance."[23]

Government officials are reluctant to engage with potential private-sector vendors outside of existing formalized bidding processes, fearing that their ethics might be questioned or that they might end up spending taxpayer

[19] A Paradigm Shift for Public-Private Partnerships: Promising Practices for Public Officials and Private Companies Working Across Sectors, Paul J. Campbell and Douglas F. DiSesa, 2013.

[20] The 10 Elements of a Vested Outsourcing Agreement, Presentation, The University of Tennessee, Center for Executive Education, Kate Vitasek, 2011.

[21] The 5-Part Test for Public-Private Partnerships, Better, Faster, Cheaper, Stephen Goldsmith and Andrew Deye, December 17, 2014.

[22] The 10 Elements of a Vested Outsourcing Agreement, Presentation, The University of Tennessee, Center for Executive Education, Kate Vitasek, 2011.

[23] Policy Number 2013-002, Central Procurement Office, Procurement Method Policy and Procedures, November 1, 2016, pgs. 16-17.

money on products or services that cost too much or don't work as advertised. For companies, the decision to work with government is often seen as risky as well, given the worry that substantive resources will be expended for an uncertain return. To be successful, states must embrace the philosophy behind the CVD process and recognize that the best solution will not come from one sector alone, and will require some compromise on both sides.

Key success factor 2: Build the team and governance systems. At the risk of stating the obvious, we must begin any discussion about effective teams by placing the emphasis on the critical need for leadership. A successful CSP requires transformational leadership with a clear vision and a goal of changing the organizational culture. At the same time, strong management that can work within the existing organizational culture will be necessary for success. Effective leadership of a CSP must ensure that appropriate expertise is brought in from both the public and private sector, that the transition to a new service delivery model motivates staff and does not alienate or discourage them, that the end goal remains clear through what may become a challenging process, and that all stakeholders are proactively engaged throughout. The leadership must also be able to implement the necessary systems to ensure that clear oversight is retained at a single point, despite the involvement of multiple actors in a partnership.

"Before the collaboration with JLL, we didn't know what to measure, much less how to measure it."

The Tennessee response: In Tennessee, the CSP required a team that could deliver on DGS' vision, "To transform public sector general services through innovation, leadership, and best practices"[24]. At baseline, DGS held a strong understanding of facilities management practices, particularly as historically conducted in the public sector, but the addition of JLL clearly enhanced the facilities management team.

Tennessee's collaboration with JLL built a team that was notably horizontal across sectors. JLL was essentially embedded into DGS, with management from both sectors physically working alongside one another, thus ensuring ongoing engagement. Furthermore, and as noted earlier, among JLL's 76 front-line personnel, roughly 25% were retained from the State. The decision to retain a significant portion of the existing staff ensured a level of public sector institutional knowledge was kept, while still bolstering the team as needed. By keeping qualified personnel, this decision also built an immeasurable level of trust between the State and JLL.

Beyond physically building the team, efforts were required to build systems through which the team could communicate and flourish in its new structure. Traditional facilities management outsourcing can limit data visibility, dually undermining performance monitoring and stymieing communication and cohesion across sectors. The Tennessee model addressed this by incorporating rigorous monthly reporting, quarterly governance meetings with senior executives from both the state and JLL, and KPIs tethered to a portion of JLL's fee. In doing so, the CSP embraced a model whereby team members were positioned and incentivized to be on the same page as their sector counterparts.

Per the contract between JLL and Tennessee, seven reports are due to various Tennessee State employees on a monthly basis. These reports are in the areas of finance, procurement, operations, and management. The lone management report is the "Key Performance Indictor" report. These reports go beyond the communication of processes and inputs, shedding light on essential outcomes against industry standards. Though all of the monthly reporting is important, arguably none is more important than the KPI report. For STREAM, the KPI report serves as the bedrock for outcomes-based communication. For JLL, 50% of their fee is subject to their ability to achieve the performance targets outlined in the report.

The KPIs are weighted to capture financial performance (50%), operational performance (30%), and customer satisfaction (20%). The financial performance metrics capture operational savings, utilities savings, and diversity spend— which reflects money spent on businesses that

[24]Tennessee Department of General Services Website, accessed August 13 2017, https://www.tn.gov/generalservices/section/general-services-main

are historically underutilized, like minority-owned, women-owned, or veteran-owned businesses . The operational performance is comprised of reactive maintenance, preventative maintenance, and critical system metrics. Lastly, customer satisfaction is captured by tenant and client perceptions. Additional performance metrics assess self-performing work, strategic sourcing, the preventative maintenance program, customer satisfaction surveys, and business analytics. Prior to the CSP with JLL, STREAM had neither the insight nor resources to capture this essential data. As we heard from a STREAM leadership member, "Before the collaboration with JLL, we didn't know what to measure, much less how to measure it". The emphasis on monthly assessment of these metrics ensures the team's engagement and cohesion.

Key success factor 3: Relationship building. Relationships between the individuals involved in all sides of a CSP are crucial to the success of a partnership, and should begin even before the partners have even entered into a formal agreement. Given the multiple years these partnerships span, team members must develop strong working relationships with counterparts both up and down the organizational chart. Often good relationships exist at the direct staff level, where individuals work most closely with their counterparts in the public or private partner and have direct operational responsibility. Generally, however, it is the leadership several layers above the day-to-day working groups that may not normally have the opportunity to build strong relationships or establish trust with their counterparts, but for whom close working will be critical in order to ensure that major challenges are approached collaboratively, effectively, and in a mutually beneficial manner.

"Just as private executives must assess the cultures of two companies going through a merger, private and public partners must work together to understand and mesh together their own cultures in order to have a successful partnership."

The Tennessee response: The decision to partner with a private entity in the management of state facilities in Tennessee was untested, and challenged the status quo. "To the knowledge of DGS officials, there was no precedent for a state outsourcing facilities management services to this scale. Thus, as Mike Perry, the state's Chief Procurement Officer, said, he and his colleagues, by contracting with JLL, would be acting as 'pioneers.' And they realized that any novel endeavor involved challenges."[25]

This type of innovative approach requires top down support from leadership within an organization. And more importantly, those leaders from both the public and private sectors must build trust to guide the collaboration. This was evident in Tennessee; "DGS's Facilities Management Director and JLL's lead staff-member sat side-by-side in what state officials described as a 'two-in-a-box' relationship. This meant that when problems or opportunities arose, they could easily determine how to proceed."[26]

Moreover, above these senior staff, Herman Bulls, a Vice Chairman (Americas) of JLL was able to build a working relationship with the commissioner of DGS early in the development of the CSP. Subsequently, they were able to discuss their challenges and fears directly with each other. Would the State support JLL if some state employees did not successfully transition to employment within the company? If the State required JLL to employ all the former state employees, would the State accept lower savings? How would JLL respond if they were unfairly criticized in the press? These relationships helped all parties develop a mutual understanding of each other's concerns and strengthened the partnership.

Collaborations move at the speed of trust. And in the final analysis, people don't really trust organizations; they trust the people within them. The relationships and trust built among the partners was critical to the success of the CSP.

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[25]Mike Perry, Chief Procurement Officer, State of Tennessee in discussion with the authors, May 2017.

[26]Pioneers: A Managed Service Contract for Facilities Management in Tennessee, presentation for the National Association of Chief Administrators, Olympia, WA, October 4-7, 2016.

Key success factor 4: Build sector intelligence in your team. The concept of a team is seriously tested in any CSP because of the cross-sector nature of the relationship. We know that the private and public sectors have different motives and incentives, but successful CSPs require all partners to understand the motivations, culture, and structure of the others. Just as private executives must assess the cultures of two companies going through a merger, private and public partners must work together to understand and mesh together their own cultures in order to have a successful partnership. Ultimately success requires that both partners understand these differences in culture. The private sector team must appreciate the deliberate and regimented process of the public sector while the public sector must accommodate the need for flexibility in the private sector. This process should begin prior to the commencement of a formal partnership. Indeed, centers of public-private partnership expertise within public bodies (such as the State of Virginia's Office of Public Private Partnerships, referenced earlier on) are examples of how this can be achieved.

The Tennessee response: The State under the Haslam administration brought a private sector mentality to the operations of state government. This mindset started at the top with Governor Haslam, a successful businessman before coming to government, and continued with the DGS leadership, many of whom were recruited from the private sector to serve in government.

JLL also understood and respected the environment of state government and the unique challenges of driving change. Dean Sally Blount of the Kellogg School of Business at Northwestern University has written about this new era of public-private interdependence and what it means for business. "It means learning to understand and respect the different priorities and structures that guide government hierarchies and policy making; the different motivations, incentives, and power bases that characterize political actors, their administrators and staff; the different ways of communicating and making decisions—ways that frequently operate on a very different time scale. Finally it means understanding different views of a "successful outcome" (e.g., profits for businesses versus a rising tide that lifts many boats for government)."[27]

"Tennessee taught us a lot about how to be successful in the government context."

Tom Foster, the lead staff member for JLL acknowledged that "Tennessee taught us a lot about how to be successful in the government context."[28] And the adoption of the vested process to incorporate private sector best practices is proof that Tennessee understood there was much to learn from the private sector. As Steve Kelman from Harvard's Kennedy School of Government wrote: "When government doesn't take advantage of [industry] knowledge before issuing an RFP, it loses. Failure to get early, honest feedback results in many misunderstandings in contract language, which bedevil contracts after they are signed and leads to disappointments or even litigation."[29]

In Tennessee, leadership from both parties understood "the interdependencies that bind the public and private sectors [and had] leaders who can manage and partner across these sectors."[30] This was vital to strengthening the relationship between JLL and the State.

Key success factor 5: Communicate for buy-in. Clear and constant communication goes hand-in-hand with building strong relationships, but how you communicate is vitally important when navigating the political environment, which demands that you carefully craft your message to build support. Changing cultures or influencing mindsets requires clear communication and is one of the most challenging and difficult parts of these efforts. In most change efforts, too few resources are committed to selling the vision to all the relevant stakeholders. This includes members of the public, many of whom are naturally distrustful of private sector involvement in the handling of public assets. Given the long-term nature of

[27]KelloggInsight, Kellogg School of Management at Northwestern University, Sally Blount, January 27, 2015.
[28]A Managed Service Contract for Facilities Management, NASCA Roundtable, Nashville, TN, May 3-4, 2017.
[29]Agencies Should Not Fear Talking to Contractors: Effective Communication between Government and Industry Can Save Money and Prevent Misunderstanding, Steve Kelman, The Business of Federal Technology. February, 2010.
[30]KelloggInsight, Kellogg School of Management at Northwestern University, Sally Blount, January 27, 2015.

many CSPs, communication is an ongoing part of the plan that requires constant focus throughout its life, especially in a political context in which there may be significant change in policy from one administration to the next.

The Tennessee response: A clear vision offers a compelling and motivating picture of where the organization is going and a path to the strategy. A strong business case is a critical component of the strategy, but insufficient without the vision and communication plan to sell the idea. Tennessee's overall vision was to "provide the best service at the lowest possible cost." The State was able to effectively argue that there had been poor management of facilities to date, and offered concrete examples of the problems. As a result, they saw a clear choice; "evolve Tennessee's existing in-house management program or manage a private sector provider."[31]

The goal was to develop a "business model that could deliver the highest-performing program, capable of producing sustainable, transformational results with the least time and cost."[32] However, when we asked leadership from both the State and JLL how to describe the business model, we got different answers. Six years after the launch of the initial initiative, there was still confusion on how to describe the business model.

Is this a public-private partnership? Is this an outsourcing or privatization? And while the description or label may seem less important than the substance or results of the initiative, properly branding the initiative is critical to get the vision right and to build better communication for buy-in. The lack of harmony in how to provide messaging around the Tennessee model ultimately caused significant problems for the State, with substantial opposition from unions and members of the public permitted to gain momentum and media traction, without a unified response from the State.

In the final analysis, this administration was asking a much more fundamental question. What is the role of government? What is the core competency of government? This initiative involved so much more than just who fixes the toilet.

The State acknowledges that they did not communicate enough at the beginning of the initiative. David Roberson, Director of Communications at DGS explained that "In 2013, we didn't explain what we were going to do, we just did it."[33] As a result, it "called into question our credibility and motives and we're still dealing with those ramifications today."[34] They now acknowledge the need to control the message. The lead agency must "be sure you can document everything you say and leaving anything undefined gives the opposition a chance to define it."[35] For example, a recent article opposing the initiative branded it this way: "Governor Haslam's secretive outsourcing plan has all the hallmarks of a corporate takeover of government."[36]

A proper coordinated communication plan will no doubt slow down progress at times, especially early in the initiative. There is a strong temptation to move quickly toward implementation and avoid any delays from a communication effort. There were several reasons that drove Tennessee toward early action. First, those driving the initiative could see the waste and inefficiency so clearly. Second, they knew that early in any administration there is a window for change that may close. Finally, as with many such change initiatives, one common philosophy states that it is better to beg for forgiveness than to ask for permission.

The communication plan required a political component to address the legislature. DGS did outreach to some legislative leadership, but they did not go far enough. And despite the strength of the business plan and potential savings and efficiencies, there was not enough done to

[31] A Managed Service Contract for Facilities Management, NASCA Roundtable, Nashville, TN, May 3-4, 2017.
[32] Ibid.
[33] Ibid.
[34] Ibid.
[35] Ibid.
[36] Tennessee's Billionaire Governor Works with His Corporate Buddies to Privatize Government Jobs, The Intercept, David Deven, April 2017. https://theintercept.com/2017/04/27/tennessees-billionaire-governor-works-with-his-corporate-buddies-to-privatize-government-jobs/

gather political support. The political reality was that state employees would be losing their jobs. And in legislative races where just a few thousand votes can sway the outcome, The Tennessee State Employee Association and later the United Campus Workers (UCW) union applied pressure. These folks "knock on doors" and show up to vote in these legislative races.

In the final analysis, this administration was asking a much more fundamental question: What is the role of government? What is the core competency of government? This initiative involved so much more than just who fixes the toilet. As John Hull, Deputy Commissioner of DGS' real estate division, explained, "For decades, no one cared who called the plumbers."[37] They care now! It was fundamentally changing roles, power and status in Tennessee state government. And the vision and communication plan needed to address the gravity of this question as well. Communication undoubtedly proved to be the most challenging aspect of the facilities management partnership in Tennessee.

Concluding Remarks

Cross-sector partnerships can help the public sector unlock access to private sector innovation and funding. A collaborative approach between the public and private sectors means that contracting arrangements may be less constrained by pre-existing public sector knowledge and practice, and more open to facilitating novel and cost-effective approaches to public service delivery or facility management.

The Tennessee example provides a case study in how a CSP can improve the public sector's bottom line while also improving service quality. This model could be applicable across other states or levels of government, and in other service areas.

CSPs represent an ever-evolving field and encompass a broad range of activities and models. The public sector should be creative when considering how to involve the private sector in service delivery or facility design or management. Pre-existing models may not provide the best solution, and there is no single template for how a CSP should be structured.

Despite the potential benefits, there are risks associated with CSPs. As the Tennessee example has shown, a smart communication plan is essential when navigating a political environment, particularly where private sector involvement may lead directly or indirectly to job losses. Furthermore, private sector involvement in public service delivery is no panacea; private sector funding comes at a premium, and asset-stripping and/or loss of operational oversight is a very real risk.

Despite the dangers, CSPs offer a promising area for innovation in public service delivery, which could help to address the mounting financial and demographic pressures faced by the public sector in the United States. As Tennessee Commissioner of General Services Bob Oglesby summarizes "Those in the public sector striving to provide greater citizen value need to give these kind of win-win partnerships a closer look, as I expect we will continue to see using the private sector's expertise and value as a game-changing strategy."[38]

We hope that this paper stimulates thought about how CSPs can be utilized to solve public sector challenges in many different contexts.

[37] John Hull, Deputy Commissioner of DGS in discussion with the authors, May 2017.
[38] Bob Oglesby, Commissioner of General Services, State of Tennessee, in discussion with the authors, September, 2017.

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Decades of experience across three overlapping and interconnected disciplines – government, business and law - has taught me cross-sector partnerships are required to build innovative and sustainable solutions.

My current work as a Senior Fellow at the University of Pennsylvania, Adjunct Professor at Kellogg School of Management and as a Director with UnitedHealthcare leading our state & local practice helps me understand how government and business can leverage each other's strengths to find the best solution.

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