If the next few years are anything like the last few years, there will be more announcements of large privatization deals within higher education. For example, Texas A&M privatized its facility operations in recent years. Tennessee announced plans to privatize all public facilities. Several states, including my own state of Georgia, have signed deals to outsource the development and management of their residence life facilities. Ohio State University privatized their parking decks and central utilities. In each of these deals, there was a large up-front payment to the institution in return for exceptionally long contracts. The contract in Georgia is in place for 65 years. These numbers are daunting to say the least.

However, higher education is facing a long-term cash crunch and every opportunity must be considered. That being said, if you really look at these deals and strip away all of legalese, privatization is a financing tool. A university is able to convert the multiyear cash flow of a service center such as utilities or parking by turning it over to an operator in return for an up-front, lump-sum payment. This payment is really a loan.

You can be sure that the up-front payment (whether borrowed or not by the operator) has a nominal interest rate cost of X% to that company. For it to work, the company must earn enough money to cover that X%, plus its expenses and overhead and then its profit. In other words, the university is getting an above-market-rate loan. I am not a big fan of this model, but until someone comes up with an alternative source of large capital infusions, we will keep seeing them.

In everything we do within this industry, we must continually become more proactive and anticipate change. Lander Medlin, APPA’s executive vice president, first introduced this concept to us years ago using a book entitled The Art of the Long View: Planning for the Future in an Uncertain World, by Peter Schwartz.

This book is more relevant than ever, considering the wave of privatization we are witnessing. The tool presented in this publication is called “scenario planning,” and it’s useful in many ways. The basic idea is that you form a team and agree on several possible events that will impact your organization, then create the scenario and your response to these events—all beforehand. Without this conceptual work, your organization will be cornered into responding hastily to dynamic changes imposed if an actual privatization scenario came to pass.

I have heard many participants of these large contracts verify both the multitude of unknowns involved, and the many unplanned actions required of facilities administrators facing these privatization scenarios. There are many factors to consider for scenario planning, but at a minimum these must be included: financial accounting, human resources, and organizational design.
THE PRIMARY DRIVER
The primary driver of most privatization contracts is money. The university needs money and is negotiating with an external operator to receive a front-end payment. As you would expect, these deals can be very complex, and a host of lawyers and accountants from both sides get involved. For this reason alone, we must be prepared to present a coherent financial plan reflective of the impacts to our organization. This can include many cost and even revenue streams, and more detail is preferred. For example, if an operator is taking on the management of our auxiliary facilities (that we previously managed), the impact is significant. The first cost that comes to mind is that of the maintenance, custodial, and grounds staff associated with those facilities. It is necessary to supply accurate cost estimates of the effective billable hours consumed by those facilities that will now be managed by the contractor.

As we all know, the funding formula and the actual expenditures typically vary. The university team needs to be given an accurate record of the costs necessary to provide service to these facilities. If the interdepartmental transfer each year for auxiliaries is equivalent to 10,000 service hours (but the actual charges equate to 12,000), and we cannot accurately supply this information, our department will not be made whole after this contract is executed.

Furthermore, our organizations have significant overhead required to operate in the form of professional services, IT, and other functions. A portion of these costs are also being removed from our enterprise and taken on by the operator. Without an accurate value, our organization will likely take a hit in the wrong department. If there is an absence of accurate information supplied by the facilities department, the university’s business office will make assumptions that will most likely be inaccurate and adversely affect our departments.

COMPASSION IN PLANNING
The concept of privatization is frightening to the facilities staff. We cannot totally remove their fears, but we can be more thoughtful and compassionate in our transition plans. Once again, it’s our responsibility to offer a plan to senior campus administration for the staff affected by any privatization initiative. In fact, such events offer a chance for senior facilities leaders to demonstrate their dedication to their staff; they may or may not present an opportunity to work in partnership with any unions representing some or all of our staff. This human relations dynamic will be reflected in the final agreement struck by our lawyers and must be very prescriptive. Some of the staff who worked for the university may now be under the operator’s roles. I liked the way Ohio State has handled this, allowing staff to make the determination individually and either stay with the university or transfer to the operator. Under this scenario, the facilities department would need to plan ahead to be able to absorb workers who desire to stay employed by the university. Once again, this suggested plan should be presented to human resources and legal counsel in a proactive manner, so as to be included in negotiations and the final contract.

Perhaps most difficult is the scenario planning associated with structural changes to our organizations. Some portion of the department will be removed and moved to the external operator. This requires great consideration, because ideally our organizations are designed specifically for the service and results being generated. If we remove the custodial operations, central utilities, or other service centers, we create imbalances in the areas of

- Management span of control
- Extra capacity in support services, IT, HR, and accounting
- Deficit in contractor management/quality assurance functions
- Supply contracts and storeroom requirements

It is reasonable for the business office to expect to see a plan from facilities on how we expect to rebalance resources in response to this change; such a plan can affect our credibility as well. Should a significant portion of our organization be moved to an operator, we cannot likely justify the same overhead for support services.

Ultimately it’s our responsibility to be proactive and manage the impact to our departments from privatization scenarios. On the other hand, I find it highly unlikely that these 50- and 65-year-long contracts will stand the test of time. Too many things can change. So, there is a new crop of future facility managers in diapers now who may have to learn scenario planning for the day when the tide turns yet again, and privatization trends back in the other direction! 🌟

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