



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

Insurance Building, PO Box 43113 • Olympia, Washington 98504-3113 • (360) 902-0555

January 29, 2016

TO: Chris Liu, Director
Department of Enterprise Services

FROM: David Schumacher
Director

SUBJECT: REVIEW OF PROGRAMS AND SERVICES AT DEPARTMENT OF ENTERPRISE SERVICES – PRINTING AND IMAGING SERVICES

RCW 43.19.008(5) directs the Office of Financial Management (OFM) to conduct a review of the programs and services performed by the Department of Enterprise Services (DES) to determine whether a program or service may be performed by the private sector in a more cost-efficient and effective manner than being performed by the department. Up to six activities and services may be selected by OFM each biennium for this review. In conducting its review, OFM is authorized to break programs into discrete services or activities or the programs may be reviewed as a whole. However, priority for selection must be given to agency activities or services that are significant, ongoing functions.

In February 2014, OFM selected four activities for the 2013-15 biennium, one of which was “printing and imaging services” (P&I services). For each selected activity, DES must conduct a procurement process. If OFM determines through the results of the procurement process that the activity or service could be provided by the private sector at a reduced cost and with greater efficiency, DES may proceed with the contract.

Based on our analysis of the DES P&I services procurement process, which is attached for your reference, the P&I services cannot be provided at a reduced cost and with greater efficiency. Therefore, DES is not directed to contract out P&I services.

DES provides consulting services to agencies in need of P&I services. DES staff review and provide advice on the most cost effective and efficient way to have the project completed, which includes whether to contract with a private vendor to perform the services for that project. If the project will be done by the private sector, DES services include contracting and coordinating with the vendor for the work on the project. This process allows the flexibility to ensure that the most cost effective and efficient method is used for P&I services.

If you have any questions, please contact Roselyn Marcus, OFM Assistant Director for Legal and Legislative Affairs, at (360) 902-0434 or Roselyn.marcus@ofm.wa.gov or Cheri Keller, Senior Budget Assistant, at (360) 902-0563 or cheri.keller@ofm.wa.gov.

Attachment

cc: David Postman, Chief of Staff, Office of the Governor
Tracy Guerin, Deputy Director, OFM
Roselyn Marcus, Assistant Director for Legal and Legislative Affairs, OFM
Cheri Keller, Senior Budget Assistant, OFM



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FROM: Roselyn Marcus *R Marcus*
Assistant Director for Legal and Legislative Affairs

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RCW 43.19.008(5) directs the Office of Financial Management (OFM) to conduct a review of the programs and services performed by the Department of Enterprise Services (DES) to determine whether a program or service may be performed by the private sector in a more cost-efficient and effective manner than being performed by the department. Up to six activities and services may be selected by OFM each biennium for this review. In conducting its review, OFM is authorized to break programs into discrete services or activities or the programs may be reviewed as a whole. However, priority for selection must be given to agency activities or services that are significant, ongoing functions.

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Based upon the analysis of DES’ P&I services procurement process, the private sector cannot provide all of these services at a reduced cost and with greater efficiency. Therefore, DES should not contract out for all P&I services and eliminate the service as a DES offering.

Although I do not recommend that DES contract out P&I services, it should be acknowledged that DES already contracts for 30 percent of all printing and imaging services, which includes the contracts for bulk printing. DES should continue to evaluate agency projects, the private market, and DES’ services and determine the most cost-effective and efficient method for each project. Using this flexible method for obtaining P&I services results in greater efficiency and reduced cost for the state.

Background

The Office of Public Printer (Printer) was established in 1854 and provided printing and binding for a wide range of agency documents. The Printer was the only state entity authorized to subcontract printing to a private vendor under some circumstances. In those cases, the Printer could apply a 5 percent markup. The law also required the Printer to charge the actual cost for print jobs but those costs could not exceed the prices listed in the Franklin Pricing Guide.

In 2011, three agencies and parts of two other agencies were merged into one new agency, DES. The Printer was one of the agencies that was abolished and merged into DES and is now known as Printing and Imaging (P&I). As part of this merger, the Legislature also made two changes to state printing requirements:

- RCW 43.19.736 removed the requirement for state agencies to use the state printer. However, if an agency seeks bids from the private sector for printing services, the agency also must seek a bid from DES¹.
- RCW 43.19.739 added a requirement that “For every printing job and binding job ordered by a state agency, the agency shall consult with the department on how to choose more economic and efficient options to reduce costs.”

Within the statute that created DES, RCW 43.19.008(5) directed OFM to select “bulk printing services” as one of the activities to be reviewed in the 2011-13 biennium. As a result of this procurement process, OFM made a determination that bulk printing could be provided at a reduced cost and with greater efficiency in the private market. DES moved to maintaining a refreshed pre-qualified vendor list to be used for bulk printing services. For the 2013-15 biennium, OFM selected for review the remaining P&I services provided by DES.

Printing and Imaging Services

P&I encompasses a variety of services. It begins with a consulting service where agencies can speak with a P&I employee with expertise not found in their own agencies. This service includes how the agency can accomplish its project in the most cost-effective and efficient manner. If the decision is to contract with the private sector, P&I employees then provide the procurement and contracting services to obtain a qualified vendor, execute the contract, oversee the work, and ensure final delivery of the products. In addition, other major P&I services include:

- *Digital printing.* Digital printing can place and update unique personal information on documents. DES streamlines the data for these customized letters, statements, invoices, and other targeted mailings. This process transforms electronic files into a “print ready” format for digital printing or printing plates used in the offset printing process.
- *Traditional offset printing.* The production of high quality color products for items that don’t meet the definition of “bulk printing,” such as posters, booklets, decals, newsletters and reports. Services also include producing oversized posters, large format printing, lamination and foam core mounting for custom print jobs.
- *Bindery services.* Bindery services include finishing options of cutting, folding, collating, padding and stapling printed products. DES can also provide numbering, perforating, inkjet inserting and mailing services.
- *Fulfillment storage and distribution services.* This is a one-stop solution for printing, storage and distribution services, with an integrated storefront, order placement and payment processing service.
- *Standard envelope manufacturing and printing.* Using specialized equipment, DES produces nine types of standard envelopes, which all agencies are encouraged to use.

¹ With procurement reform, agencies must seek bids only for services costing more than \$10,000, or more than \$13,000 if contracting with a small business.

- *Integrated/accountable print and mail services.* Upon completion of a print job, DES completes the mailing and distribution for agencies. This includes distribution list cleansing, packaging and shrink-wrapping. Many of these distributions are then made directly through DES' Consolidated Mail Service.

P&I services are provided to more than 432 customers, including state agencies, local government entities, public benefit nonprofit organizations, and Native American tribes.

To accomplish these services, P&I can perform the work with its own staff and equipment or contract with the private sector. To facilitate contracting with the private sector, P&I maintains an extensive list of pre-qualified vendors that can perform a wide range of printing and imaging services. Currently, there are 380 pre-qualified vendors. This list is continually updated. Opportunities are provided for new vendors to be added. Periodically, an announcement/solicitation is posted on the Washington Electronic Business Solutions system asking vendors to submit an application to be added to the pre-qualified list. In addition, DES staff members reach out to new and existing firms based on interest and performance, to see if the vendor is qualified and would like to be added to the list. Vendors also are removed from the list if they are no longer in existence or if there is a pattern of customer dissatisfaction.

DES Printing and Imaging Services Operations²

When P&I merged into DES, it had 113 FTEs allotted to perform all printing and imaging services that were transferred to DES. The 2013-15 budget reduced this number to 95 FTEs. By the end of fiscal year 2015, the number of FTEs was further reduced with the contracting out of "bulk printing" services. The current staffing level to perform P&I services is 52 FTEs.

At the time of the merger, it was located in six locations. Since then, P&I has streamlined operations and merged redundant and complementary services, enabling it to reduce the number of locations from which it operates. P&I now operates from only two locations. The main facility is located in the Tumwater Modular Building, which houses most of the equipment and employees. P&I also maintains a small copy center in the Ecology Building in Lacey.

In terms of P&I equipment inventory, most is owned and there are no outstanding certificates of participation. In addition to the owned equipment, P&I leases nine digital printing devices. These leases include cancellation clauses that would allow the equipment to be returned should funding be terminated.

P&I is funded from the fees received from services provided. For fiscal year 2015, total production revenue was approximately \$17.2 million. After the cost of goods sold and other operating expenses, P&I had a positive net income of \$1,300³. This is a significant improvement compared to the net operating loss of \$1 million in fiscal year 2014.

² It should be noted that DES is only one of eight state entities that have their own printing operations: Office of the Attorney General, Employment Security Department, Legislative Services, Department of Labor and Industries, Office of Superintendent of Public Instruction, Western State Hospital, Department of Transportation, and Correctional Industries located at the Monroe Correctional Facility.

³ This represents the total after applying some prior period adjustments. Without these adjustments, there would be a net operating loss of \$130,000.

DES Competitive Process

The statute requires DES to conduct a request for information, request for proposal, or other procurement process to determine if a contract would result in a reduced cost and greater efficiency. To determine which method should be used, DES looked at the nature of the services being procured.

The services encompass a wide variety of activities. As such, DES could not use one request for proposal or other procurement method to test the market for all these activities. Some of the activities, like fulfillment services, do not have a large market from which to test. In addition, in the prior 12-month period, 98 percent of the jobs performed by P&I did not require a competitive process as they fell below the direct buy threshold.

As was learned from the bulk printing procurement, it is difficult to receive bids that can be used for a cost and efficiency comparison when dealing with such a highly specialized service that also relies on quality. Agencies have diverse requirements that do not lend themselves to a request for standardized pricing for specified services. Each quote is based on the actual service request. Vendors also may specialize in different services and may not be able to provide quotes for all the services requested. This leads vendors to not bid on an RFP that includes multiple subjects. Finally, many of the vendors that would provide bids for the work that would be included in one or more competitive solicitations are already on the pre-qualified vendor list and would see no reason to submit a bid.

Given the above factors, a traditional procurement method was not the best way to obtain data that could be used to determine cost and efficiency. Therefore, DES engaged in an alternative method of competition. The method used was a hybrid of a request for information and a solicitation.

DES first created a process referred to as the "secret shopper." DES asked approximately 260 agencies to gather bids from both the private sector and DES when it had a print job. By gathering data on actual projects, DES would receive real cost and efficiency information that could be used for comparison purposes. Unfortunately, only 14 customers agreed to participate. DES ultimately received information on 10 print jobs⁴.

Because the number of print jobs was too small for a valid comparison, DES next engaged in a comparative analysis based on 31 jobs that the agency had completed in the prior year. The jobs were a representative mix of printing services provided by DES and included:

- Traditional offset printing
- Digital print
- Customized information
- Envelope products.

For each of those jobs, DES created a solicitation and went out for bids to see if the private sector would submit bids. If bids were submitted, DES could compare the cost of those bids.

DES engaged in a modified process for the fulfillment services. Since Amazon is a known vendor that provides this service, DES obtained information on the costs and terms of what the state would be able

⁴ In follow-up calls, customers stated they did not participate because DES normally handled the work involved in crafting the solicitation and receiving bids. Customers did not have time to do this work in place of DES.

to obtain if this service were contracted out to Amazon. See Exhibit 1 for the results of this analysis.

Improvements to P&I Services

As previously noted, P&I has reduced cost and increased efficiencies over the last biennium, and is continuing to improve in this biennium. Many of these changes are focused on integrating the P&I services with Consolidated Mail Services (CMS), to develop a faster, more seamless system for print to mail activities. Below is a description of the changes that have occurred and those that are in progress, all of which have had positive impacts on the program and customer service.

- DES consolidated the delivery trucks of CMS & P&I. P&I was able to eliminate its delivery trucks by using CMS delivery vans to complete deliveries.
- Production Services previously purchased rolls of punched, perforated paper from the private sector. That function was turned over to P&I which already purchased rolled sheets in bulk. P&I can cut, punch and perforate the rolls on existing equipment. The rolled sheets cost less than the paper being purchased by Production Services.
- DES inherited two inserting functions: one at P&I and one at CMS. DES consolidated the insert function at CMS and eliminated the equipment and one staff position in P&I.
- DES reduced the number of managers for P&I, Production Services and CMS. One program manager has been put in place to manage all three programs. This will facilitate the continuing integration of the services provided in these programs.

In addition to the improvements that have been implemented, several more are in progress or nearly complete:

- Production Services has been housed at OB2 with the mainframe data center. It is being moved to the P&I Modular Building to use more of the space already owned by DES.
- P&I currently has two separate ways to order print services. It is inefficient to maintain two order methods. In addition, this service relies on hardware that may no longer be supported by the vendor. DES has engaged WaTech to develop a new, single storefront using features of both systems. This will make it easier for customers to place orders and reduce the time spent ordering. It will also reduce the risk of a system failure.
- Customers value a quality finished product and one-stop shopping. They are seeing the value of bundling work and are not concerned with where and how a print job is produced and mailed. Consolidation of the three operations allows a single approach to solving customer needs of print to distribution.

Evaluation of Efficiencies

P&I offers a number of efficiencies, some of which are not available in the private sector. Many of these efficiencies also result in a reduced cost to the entire service. Therefore, I find that the private sector cannot perform these functions with greater efficiency.

DES has the online ordering system, MyPrint⁵. A more streamlined process, it requires customers to learn only one order system. Online systems generally are not available in the private sector. Larger

⁵ MyPrint is in the process of being updated.

national print suppliers have similar online systems, for example FedEx (formally Kinkos), Office Depot, and Staples. Very few small private printers offer online ordering. Capital City Press is an exception. There are some vendors that offer email ordering such as Alpha Graphics, Graphic Communications, Minuteman Press, Olympia Copy, and South Bay Press. For each private sector vendor, customers would need to find out what system is used for ordering and how to use it.

DES provides the initial consulting services to assist the agency in creating their print job for the highest quality at the lowest cost. If DES determines that it would be more cost-efficient and effective for the job to be done by the private sector, DES handles the preparation of the solicitation, if needed, the procurement or vendor selection process, and the contract for the job. If DES no longer provided that service, agencies would need to perform this specialized function. This would require agencies to develop their own expertise, which would move the experts from a consolidated P&I program to separate positions in multiple agencies.

DES can deliver print jobs to customers as well as directly handle distribution and mailing. This can be done in a seamless fashion. CMS is the first option for delivery of jobs at the lowest cost. CMS also picks up and delivers on a daily basis printed jobs requiring inserting and mailing services to the Cherry Street CMS facility. In addition, and depending on the volume and due dates of the order, other commercial shippers on contract (such as FedEx and Peninsula) may be used. If there are special deadline circumstances, the P&I staff may do an occasional delivery using a DES vehicle. A few customers choose to pick up their jobs from the Lacey or Tumwater locations.

In comparison, private sector printers also use shipping companies at an additional cost or the customer picks up the order. Private vendors do not have access to CMS mail services, so mailing services would be done at a higher rate. Some print providers do not operate "retail" operations and may require a broker to arrange for shipping and delivery for a fee to the customer. Otherwise, the materials would need to be processed by the agency for mailing.

With the consolidation described above, P&I is able to provide a complete suite of services from initial consulting to distribution of the printed material. The customized information service means an agency only has to provide a template and mailing list to P&I. P&I can then duplicate, customize, insert into envelopes, and mail all in one flow. This provides greater efficiency for agency customization jobs.

Finally, P&I contracts out 30 percent of the jobs requested by agencies. The most common reasons for contracting with a private vendor are: reduced cost, DES not having the ability to perform the job (e.g., the job requires newsprint), lack of current production capacity, and greater efficiency by a private vendor. In that way, services are already contracted out when the state can benefit from a reduced cost and greater efficiency.

Evaluation of Cost

In reviewing the bids and market analysis from the DES modified procurement process, bids for particular projects that are lower than the cost of the DES services have been identified. However, if the cost to the agencies for the activities outlined above in the Evaluation of Efficiencies section is added, the final costs of those print jobs bid by the private sector may exceed the cost of the service if provided by DES. That is due to all the additional services provided by DES and the integration of

David Schumacher
January 29, 2016
Page 7

related services that provide a seamless transaction at a reduced cost. For example, if the job required print and mailing, there would be additional cost for the service. In addition, the mailing service portion of the private sector job would cost more because the private sector cannot take advantage of the reduced postage rate available to CMS.

In addition, as discussed above, P&I already tests the market for any given print job and contracts out the job if it can be done at a reduced cost or with greater efficiency. Taking into consideration all the services provided, the costs associated with the services for any one job, and the competitive nature of the P&I rates, I do not find that the private sector can provide the service consistently at a reduced cost.

Recommendation

The statute provides that if OFM determines that the service cannot be provided by the private sector at a reduced cost and with greater efficiency, OFM shall recommend that DES not contract out the services with one or more vendors.

Given my findings on costs and efficiencies, I cannot determine that the private sector can provide the service at a reduced cost and with greater efficiency. DES already has a process in place that uses the private sector whenever it will result in reduced cost and greater efficiency.

Therefore, I recommend that DES not contract out the P&I services. DES should continue to provide consulting services and contract with the private sector when such contracting results in a reduced cost and greater efficiency.

If you have any questions, please contact Cheri Keller or me.

cc: Tracy Guerin, Deputy Director, OFM
Jim Crawford, Assistant Director for Budget, OFM
Cheri Keller, Senior Budget Assistant, OFM

Fulfillment Storage and Distribution Services Analysis of Cost and Efficiencies

DES provides a one-stop solution for printing, storage and distribution services. Through the integrated storefront, an agency can place an order and have its payment processed. DES manages a centralized fulfillment center with two FTEs who manage approximately 118 million pages of product per year.

Agencies use this service when items need to be produced in large quantities that do not need to be immediately distributed, but must be stored until otherwise needed¹. DES then stores the products in its center. When the agency needs a certain number of brochures shipped to a customer or agency location, DES packs and ships the product through Consolidated Mail Services.

Approximately 88 percent of the items are distributed to citizens free of charge, for which the agency covers all costs associated with printing, storage, packing and shipping. Examples of products include informational brochures about immunizations, the Traffic Safety Commission's Child Passenger Safety Quick Reference Card, and Parks and Recreation's Mandatory Boating Safety Education Brochure.

The remaining 12 percent are distributed on behalf of the agencies at a cost to the customer at a rate defined by the agency that ordered the product. These items include maps for the Department of Fish and Wildlife, and Family Home Child Care Licensing Guides developed by the Department of Early Learning for individuals who provide in-home child care. When an agency charges a customer for the products, DES collects the revenue, manages the distribution of sales tax to the Department of Revenue, and returns the remaining proceeds from the sale to the agency on a quarterly basis.

Amazon provides fulfillment services with limitations and requirements not found with the DES services. Amazon:

- initially restricts inventory volumes to 5,000 units.
- increases its storage rates by 16 percent from October through December.
- may establish capacity limits for customers with a high proportion of slower moving inventory. When inventory levels reach the designated limit agencies would not be able to create new inbound shipments until inventory levels drop.
- is able to impose additional fees for unplanned preparation services when products have not been prepared or labeled adequately before being sent to them. Examples include missing barcode labels, necessary bubble wrap, and required suffocation warning labels.
- varies its rates based on the type of product being stored as well as the size of the item.

In addition, Amazon may not be able to accommodate specific agency business requirements. For example, some agencies limit distribution to Washington residents. Finally, Amazon could not guarantee that the materials would be stored in Washington state or that all the materials would be stored at the same location.

¹ This service differs from bulk printing. Bulk printing only provides the printing component of fulfillment services. The other services performed by DES would have to be shifted to the agency or the private vendor.

Below is a cost comparison of P&I costs and Amazon costs.

Printing and Imaging Costs				
	1 Month Supply	3 Month Supply	6 Month Supply	12 Month Supply
Quantity	25,000	50,000	100,000	200,000
Print Rate	\$0.26	\$0.23	\$0.20	\$0.19
Total Print Cost	\$6,500	\$11,500	\$20,000	\$38,000
Storage	0	\$567	\$1,134	\$2,268
Shipping, Handling & Material Cost	\$1,301	\$3,904	\$7,807	\$15,615
Total Expense	\$7,801	\$15,971	\$28,941	\$55,883

Estimated Amazon Costs*				
	1 Month Supply	3 Month Supply	6 Month Supply	12 Month Supply
Quantity	25,000	50,000	100,000	200,000
Print Rate	\$0.26	\$0.23	\$0.20	\$0.19
Shipping to Amazon Warehouse	\$900	\$1,800	\$3,600	\$7,200
Total Print Cost	\$7,400	\$13,300	\$23,600	\$45,200
Storage	\$150	\$945	\$1,890	\$3,775
Shipping, Handling & Material Cost	\$733	\$2,198	\$4,395	\$8,791
Total Expense	\$8,283	\$16,443	\$29,885	\$57,766

*Amazon costs only reflect core services and do not include any ancillary add on costs as described above.

If fulfillment services were contracted out, there would be additional cost, reduced flexibility for the agencies, and a shift of work from DES to agency customers. In conclusion, it does not appear that the private sector can provide the entire service at a reduced cost and greater efficiency.

