

Preliminary Business Case for Consolidating and Outsourcing Executive Agency Mail Service Operations

June, 2004

Achieving maximum savings and efficiencies by eliminating duplicative resources, utilizing new technology and realizing the full savings available by using integrated postage

Lead Agency:

Department of Management Services
4050 Esplanade Way
Tallahassee, FL 32399
850-488-2786

Affected Agencies:

Agency for Healthcare Administration	Department of Juvenile Justice
Agency for Workforce Innovation	Department of Law Enforcement
Department of Business and Professional Regulation	Department of Management Services
Department of Children and Families	Department of Revenue
Department of Community Affairs	Department of State
Department of Corrections	Department of Transportation
Department of Education	Department of Veterans Affairs
Department of Elder Affairs	Division of Administrative Hearings
Department of Environmental Protection	Florida Fish and Wildlife Conservation Commission
Department of Health	Florida Lottery
Department of Highway Safety and Motor Vehicles	State Board of Administration

Note: Agency contact information can be found in Attachment 5.

Contact Person:

Jack Furney
Governor's Center for Efficient Government
The Capitol – Room 2105
Tallahassee, Florida 32399-0001
Phone: (850) 414-9200
Email: furneyj@dms.state.fl.us

Justification Statement

The State of Florida's Executive Agencies currently use a very manual and labor intensive process to accommodate mail received and delivered to and from state agencies. There is an opportunity to provide Florida taxpayers considerable savings while improving mail services through a centralized mail center in Tallahassee.

Background

In October 2003, the State of Florida's Department of Management Services entered into a state term contract with Pitney Bowes Management Services, Inc., to provide more cost effective and efficient mail services for agency statewide mail operations. Per this contract, if agencies choose to contract with the vendor individually, they are currently required to initiate the procurement of Pitney Bowes services by issuing separate task orders, of which the terms and pricing models are negotiated individually.

Estimated Cost

Executive Agencies currently spend a combined total of approximately \$31 million annually for Tallahassee mail service operations and statewide correctional facilities. This includes 287 positions and associated salaries and expenses, vehicles, equipment, operation and maintenance costs and postage. The cost to outsource Tallahassee Executive Agency mail services, as well as the Department of Corrections' statewide mail operations, would be approximately \$25 million per year, resulting in an estimated savings of more than \$60 million over ten years.

Timeframe

This project could be fully implemented within eight to ten weeks of an executed contract.

Statutory Authority

The State has statutory authority to conduct this project pursuant to Chapter 20, Florida Statutes.

Table of Contents

Introduction.....	Page 2
1.01 Executive Summary.....	Page 4
1.02 Benchmark: Current Service, Program or Function.....	Page 6
1.03 Rationale: Explanation for Introducing Competition.....	Page 11
1.04 Assumptions and Methodologies.....	Page 14
1.05 Feasibility: Detailed Recommended Solution.....	Page 17
1.06 State and Agency Impact.....	Page 18
1.07 Transition Management Strategy.....	Page 19
1.08 Critical Success Factors.....	Page 21
1.09 Procurement Process.....	Page 23
1.10 Conclusion.....	Page 24

ATTACHMENTS

- Attachment 1.....Staffing Information**
- Attachment 2.....Outside Contracts**
- Attachment 3.....Technology Inventory**
- Attachment 4.....Vehicle Inventory**
- Attachment 5.....Agency Mail Services Contact Information**

1.01 Executive Summary

The Governor's Center for Efficient Government (Center) proposes consolidating the Executive Agencies twenty-two individual mail service operations into one, centralized operation in Tallahassee. The Center also proposes that the vendor operate individual locations at correctional facilities statewide. By consolidating these functions, the Center projects an annual savings between \$6 million to \$7 million per fiscal year, while providing more efficient and effective mail services to agencies and their customers.

Mail and document messaging is one of the primary forms of communication across every state agency. While technology offers enticing options to reduce paper and paper-based communication, the broad and diverse customer base served by the Executive Agencies dictates a continuation of paper and mail-based communication. These interactions are the fundamental method by which many agencies communicate with clients regarding such elements as eligibility, current or changed status, and notices of action. Moreover, the timely delivery of mail to customers is often mandated, with penalties or financial repercussions if not achieved. Furthermore, the complexity of the documents and overall communication continues to increase, driven by such requirements as providing communication and instruction in varying languages, or the inclusion of specific messages to narrowly targeted clients. Consequently, all governmental entities face a significant challenge of providing increasingly complex and targeted communications to customers in a timely fashion with a high level of accuracy and privacy, while at the same time trying to minimize overall administrative and operational costs.

While mail is critical to an agency's mission, it is not a core function. By creating a consolidated mail operation the state would achieve the following benefits:

- Improved cash flow by implementing consolidated systems
- A holistic view of mail distribution and production, which would lead to further process efficiencies
- Reduced duplication of effort and inefficiency in routine operations
- Leveraged value of new technologies across all areas
- Cost avoidance of penalties for poor performance while improving customer satisfaction
- Increased management control over spending

An analysis of Executive Agencies' current mail service operations demonstrates that there are substantial savings and efficiencies available to the State by consolidating and outsourcing mail services. These savings and efficiencies could be realized by undertaking and implementing the following:

Creation of a central processing center for all incoming and outgoing mail

- Provide added security for incoming mail to the state
- Leverage one common infrastructure
- Deploy the latest software to support common document composition and address hygiene across all production areas

- Allow for easier integration of mail stream information (track & trace) into other business processes
- Centralize key mail production technology to increase throughput & quality
- Enhance overall service while substantially reducing costs
- Reduce duplicative administrative efforts and resources

✚ Implement network consistency for mail meters across all agencies

- Replace analog postage meters; the United States Postal Service (USPS) is mandating the use of new postage meter technology be implemented in part by 2006 and in full by 2008. The analog postage meters that are now used need to be replaced due to mail postage fraud and the loss of postage funds by the USPS.
- Begin utilizing “Just in Time Postage”—the automated management of postage funds to replenish postage funds as needed, minimizing idle funds and reducing administrative expenses. This would provide a one-time release of postage funds currently “locked” in the meters for other uses.
- Manage Postal Funds using an Enterprise approach.

✚ Centralize automated sorting functions to gain economies of scale

- The State would optimize postage discounts by centralizing sorting functions
- The Industry best practice is to sort to the 5 digit zip-code level to gain further postage savings because using this presort automation requires less manual sorting

The Center’s analysis projects a total savings, including the processing cost with advanced technology, of more than \$60 million over 10 years, by focusing on these key improvements in the mail and document messaging area. Immediate savings would be realized due to reduced administrative and postage costs. Also, the state would not incur additional capital outlay costs.

Consolidated Mail Services Comparison	Current State Mail Operations	Consolidated Solution - Vendor*	Consolidated Solution - State of Florida
Postage Expense (<i>Governor's Agencies Statewide</i>)	\$ 15,091,236	\$ 11,469,339	\$ 13,582,112
Mail Services Related Staffing	\$ 9,417,000	\$ 8,304,500	\$ 8,523,900
Overnight Shipments	\$ 5,000,000	\$ 3,838,000	\$ 4,500,000
Mail Equipment (<i>Tallahassee</i>)	\$ 600,000	\$ 406,250	\$ 732,100
Real Estate (Rent)	\$ 697,500	\$ 310,000	\$ 465,000
Project Management	NA	Included	\$ 385,000
TOTAL	\$ 30,859,736	\$ 24,328,089	\$ 28,188,112
Annual Savings		\$6,531,647	\$ 2,671,624
Ten Year Savings		\$65,316,470	\$26,716,240
Additional Ten Year Savings realized from consolidating and outsourcing		\$38,600,230	

*These numbers are conservative estimates; the State would negotiate a joint task order in conjunction with the state term contract to achieve maximum savings.

1.02 Benchmarking

As stated earlier, Florida's Executive Agencies currently provide mail services through individual agency mail centers. Each agency posts, picks up and delivers mail differently and conducts anywhere between one and seven mail "runs" per day. These "runs" typically take up several hours in a day for each agency and in many cases, each agency goes to the same pickup/drop off location. For example, several agencies make the same runs at basically the same time from the Capital Circle Office Complex (CCOC) to various downtown locations. Different agencies take separate vehicles to the same downtown locations and bring mail back to the CCOC. If mail services were centralized, this function could be accomplished more efficiently with one vehicle making each agency's pick up at the same time.

Benchmarking with mailing industry standards, we identified the current state of these processes from readily available data and departmental feedback. We focused on the Executive Agencies' largest mailers (in terms of mail distribution and production volumes), such as the Departments of Health, Children & Families, Revenue and Highway Safety and Motor Vehicles, which together produce more than 57 million envelopes annually and receive more than 28 million letters annually. The current scope of services covered under mail services are:

Specific Service Descriptions

There is a wide degree of variance between how each individual agency processes and delivers mail. The common functions these agencies perform daily include:

- AM pick-up and sorting of USPS mail
- AM receipt and sorting of all incoming accountable packages
- AM delivery of USPS and accountable packages
- PM delivery of all interoffice, USPS mail and accountable packages
- PM processing of all USPS outgoing mail
- PM processing of all outgoing accountable packages

Performance Measures

Agencies currently only capture workload data. As there are no performance measures in place, and agencies do not capture performance data, it is difficult to determine current efficiencies and effectiveness. Performance should be tracked and measured in several areas including error rates, customer satisfaction, and delivery speed.

Data Collection

The vendor would be required to compile various data including:

General

- Inbound USPS Volumes (By type, i.e., number of letters, types, boxes, checks)
- Inbound Accountable Volumes (requiring signatures)
- Number of Pieces of Inbound Generic Mail (opened, read and routed)
- On Time Mail Runs (percentage)
- On Time Accountable Deliveries (turn around time percentage)
- Number of Outbound USPS Volumes

- Number of Outbound Accountable Volumes
- Postage Savings (amount)
- Overall Savings (amount)
- Presort Percentage Savings (for each discount levels)
- Value Added Services
- Number of Special Projects Performed

Production Mail

- Production Mail Volumes (By type – designated by customer)
- Envelope Usage
- Piece Count By Form Type
- Error Rate
- Turnaround Type
- Machine Utilization

The state could begin to track performance levels with a private vendor, ensuring continual improvement of service.

There are a few distinct functions of mail services, each with its own benchmarks and performance measures. They are: Incoming Mail Distribution, Outgoing Mail Inserting, and Finishing and Pre-sorting. While each specific agency performance will vary, the aggregate is clear that there is significant room for performance improvement. We project increased efficiency by 33 percent in Incoming Mail Distribution, 80 percent in Outgoing Mail Inserting, and 80 percent in Finishing and Pre-sorting functions.

Benchmark Figures for Inserting	
Automated Letters Per Month	2,380,000
Inserting Machines	7
Mail Pieces Per Machine Per Month	340,000
Number of Mail Pieces Per Machine Per Day	15,692
Capacity Per Machine (6,400/hr X 12hr)	76,800
Current Utilization	20.43%

Benchmark Figures for Sorting	
3&5 Digit Sorted Letters	2,300,000
Sorting Machines	3
Sorted Pieces Per Machine Per Month	766,667
Work Days Per Month	21.667
Number of Sorted Pieces Per Machine Per Day	35,384
Capacity Per Machine (15,000/hr X 12hr)	180,000
Current Utilization	19.18%

The primary areas to consider in achieving an efficient and effective mail service operation are:

- US Postal Service – Mail Preparation Total Quality Management Certification
- Secured facilities and mail handling processes
- Quality assurance to minimize rejected mail pieces
- Bar-coding of all mail to support track and trace
- Move update capability tied to USPS databases
- Guaranteed pricing (fixed-unit pricing methodology)

Staffing Information

Below is a sample of the staffing information as reported by Executive Agencies. The entire list can be found in Attachment 1.

Department	Position Title	Responsibility	Is the employee OPS or an authorized FTE?	Full-time or part-time?	Hourly Wage	OT Wage	Average Weekly Hours	Gross Annual Salary (w/o benefits)	Gross Annual Salary (with benefits)
AWI	Manager	Mail Management	Contracted Position	Full-Time	N/A	28	40		
AWI	Team Lead	Correspondent Manager	Contracted Position	Full-Time	N/A	25	40		
AHCA	Office Ops. Manager I	*Please see note below	FTE	Full-Time	15.17		40	\$31,554	\$41,651
AHCA	Senior Clerk	Sorting, delivering, and applying postage to mail	FTE	Full-Time	11.03		40	\$22,942	\$30,284
DOR	Clerk	Clerk	OPS	Full-Time	7.00		36	\$13,104	\$17,297
DOR	Clerk	Clerk	OPS	Full-Time	6.50		36	\$12,168	\$16,062

SUMMARY (does not include contracted positions)	
OPS (without benefits)	\$196,664
OPS (with benefits)	\$259,596
FTE (without benefits)	\$1,237,056
FTE (with benefits)	\$1,632,914

Budget Information

The following table represents Fiscal Year 2004-05 annualized mail service expenditures for Executive Agencies.

Item	Current Fiscal Year Mail Operation Costs
Postage Expense (<i>Governor's Agencies</i>)	\$ 15,091,236
Mail Services Related Staffing	\$ 9,471,000
Overnight Shipments	\$ 5,000,000
Mail Equipment (<i>Tallahassee</i>)	\$ 600,000
Real Estate (Rent)	\$ 697,500
Total Mail Processing Related Expenses	\$ 30,859,736

Current Service Agreements

There are several service agreements between Executive Agencies and other entities to handle presort and courier services. These service agreements are used by agencies for large, as-needed mail related functions. By consolidating the state's mail service operations, the need for these types of agreements should be minimal. The table below contains a list of current service agreements for those mail-related functions.

Agency	Vendors with pre-sort or courier contracts
Agency For Health Care Administration	FSU
Agency for Workforce Innovation	Pitney Bowes
Department of Business and Professional Regulation	Modern Mailers, FSU
Department of Education	FSU, Modern Mailers
Department of Elder Affairs	FSU
Department of Environmental Protection	FSU
Department of Health	FSU, Modern Mailers
Department of Juvenile Justice	FSU, Pony Express
Department of Law Enforcement	FSU
Department of State	FSU
Fish & Wildlife Conservation Commission	FSU
Department of Management Services	FSU

NOTE: *Copies of these service agreements can be found in Attachment 2*

Technology Resources

Below is a sample of the agency equipment inventory as reported by Executive Agencies. The entire list can be found in Attachment 3.

Equipment Inventory

Agency	Make/Model	Serial #	Description	Status (O)Owned (L)Leased	Original Purchase or Lease Date	Original Purchase or Lease Payment	Annual Maint. Cost	Current Book Value	Lease Company	Phone #
AHCA	Pitney Bowes	6769829	Postage Meter	Leased	N/A	1) See notes	N/A	N/A	Pitney Bowes	800-659-2555
AHCA	Pitney Bowes	6784490	Postage Meter	Leased	N/A	1) See notes	N/A	N/A	Pitney Bowes	800-659-2555
AHCA	6100	72488	Mail Machine	Own	N/A	2) See notes	N/A	N/A	N/A	850-922-3699
AHCA	6100	47273	Mail Machine	Own	N/A	2) See notes	N/A	N/A	N/A	850-922-3699
AHCA	2 ea A3001 077		Postage Accumulator	Leased	N/A	2) See notes	N/A	N/A	A-1	850-668-7935
AHCA	2 ea Detecto		Postage Scales	Leased	N/A	2) See notes	N/A	N/A	A-1	850-668-7935
AHCA	Appollo	A120621	Tracking System	Leased	N/A	2) See notes	N/A	N/A	A-1	850-668-7935
AHCA	1225	A100389 1	Letter Opener	Leased	N/A	2) See notes	N/A	N/A	A-1	850-668-7935

1.03 Rationalize basis for introducing competition into service

Executive agencies currently spend approximately \$1 million on postage per month. **A projected 20% reduction in postage costs could occur** due to:

- “Just in time” postage management would reimburse postage throughout the day as needed and would allow the State to empty meters at the outset of a project
- Increasing zip code density for presorting to allow for greater postage discounts
- Metering all first class mail at the lowest appropriate postal rate
- Using the best possible class selection for all outgoing mail

Executive Agencies also own mail equipment, and as a result, equipment repairs and maintenance cost the State \$600,000 per year. **A projected 55% reduction in equipment costs and maintenance could occur** due to:

- Elimination of obsolete, inefficient or inaccurate mail processing equipment if the equipment:
 1. Lacks the features for today’s automated environment
 2. Cannot be upgraded or integrated into an efficient production facility
 3. Is worn out due to over extended use
- Consolidation of all mail processing equipment to eliminate maintenance cost
- Automation of insert jobs of significant volume that are now being handled manually

Executive Agencies currently use 28 vehicles to conduct mail services operations in Tallahassee. **A 54% reduction in vehicle costs could occur** due to:

- Reducing the number of agency vehicles used and associated vehicle expenses such as gas, insurance, maintenance, and labor
- More efficient vehicle utilization by eliminating up to 25 individual trips to the USPS

Issues Associated with Current Mail Service Operations

- **Expensive repairs to old outdated equipment.** If mail service operations continue to be conducted by each individual agency, the State runs the risk of high operation costs by having to repair outdated equipment. Even if repaired, the equipment would not perform at the capacity of new mail equipment technology. Due to fiscal constraints, the purchase of new equipment is unlikely. The contractor would replace equipment utilizing the latest technology.
- **Operating at less than optimal or maximum capacity.** Continuing to use outdated equipment will result in poor service to customers through slower mail service and increased mailing errors, resulting in the inefficient use of taxpayer dollars. The contractor would replace old equipment. New equipment would operate at more efficient and effective levels saving taxpayer dollars.

- **Slower and more error prone mail services.** The state currently operates mail services without sufficient performance management tools. Due to the lack of an error report, it is virtually impossible to measure the effectiveness and efficiency of mail services. A contractor could implement a comprehensive performance management system. In addition, the contractor would be contractually bound to enhanced service performance levels.
- **Security.** State facilities need to be upgraded and agencies lack a consistent security policy. In coordination with the Florida Department of Law Enforcement and applicable federal requirements, the vendor would implement a consistent security policy and implement the necessary upgrades to enhance mail services security.

Options Considered

The Center identified the consolidation of mailroom services in Tallahassee, and to the extent possible in district or regional areas with multiple customers, as an opportunity to achieve further and immediate efficiencies/savings and improve the level of service to agencies and their customers. The Center explored three options for the state's current mail services system:

1. Reengineer the current system by consolidating current resources in-house.
This option would provide estimated savings of more than \$3 million per year while improving services. Although this option would net overall savings, reengineering current resources is cost prohibitive due to operating capital outlay costs, vehicle purchases, operations and maintenance needs, and employee retention issues.
2. Negotiate the current state term mail services contract by consolidating current resources to the state term contract provider through an enterprise wide approach.
This is the most viable option because it would provide estimated savings of more than \$6 million per year and would provide improved services, accountability and increased security. Further, the current provider has expressed their intent to retain all current mail services employees, who choose to accept employment with the company, at a minimum of their current salary and benefit levels.
3. Revisit the procurement process by re-bidding the mail services via an Invitation to Negotiate.
This option was not deemed feasible since the State has a current state term contract for outsourced mail services that is valid through September, 2006. When the initial Invitation to Negotiate (ITN) commenced in February, 2003, Pitney Bowes, Inc. was the only bidder on the ITN and was consequently awarded the state term contract. There is no indication that other companies would respond to a mail services ITN if re-advertised.

Since the state currently has a state term contractual provider, agencies can negotiate individual contracts to achieve savings, efficiencies and effectiveness. The original intent of the state term contract was to negotiate an enterprise wide task order in order to maximize savings and efficiencies. Since an enterprise wide task order under the

current state term contract has not yet been explored, a handful of agencies have either a signed individual agency task order (in conjunction with the state term contract) or have expressed interest in doing so. However, an enterprise wide approach would result in even further savings than if each agency negotiated individually.

Consequently, the Center believes it is in the State's best interest to retain the current provider, negotiate an enterprise wide task order and not re-bid the contract.

Statutory Authority – Chapter 20, Florida Statutes

20.051 Review of programs.--

(1) To achieve maximum efficiency and effectiveness of government as intended by s. 6, Art. IV of the State Constitution, and to promote quality management and accountability as required in s. 19, Art. III of the State Constitution, all programs, functions, and entities must be reviewed by the executive and the legislative branches. The review must identify and examine the purpose of each program, function, or entity to ensure that each program, function, or entity is administered in the most effective and efficient manner possible, and to assess the public benefit derived from the program, function, or entity. Reviews must determine whether the function, program, or entity:

- (a) Serves an identifiable purpose that benefits the public and accomplishes the purpose for which it was created;
- (b) Operates efficiently and effectively within its statutory framework, and whether there are any statutory changes that would likely increase the effectiveness and efficiency of the function, program, or entity;
- (c) Is necessary to the public health, safety, or welfare, and what would be the effect of its abolition;
- (d) Serves a beneficial purpose to state agencies in improving the effectiveness and efficiency of the operations of the state;
- (e) Directly or indirectly increases or decreases the costs of any goods or services, and whether any identified increase in cost is more harmful to the state than any of the harm that could occur absent the function, program, or entity;
- (f) Is situated within an organizational structure that promotes its efficient and effective administration and does not duplicate activities conducted in other agencies of the state; and
- (g) Could be assigned to another state agency or to private enterprise, and if so, the most efficient way of doing so.

1.04 Describe Assumptions and Methodology

Executive Agency mail services can be broken down into three major categories:

1. Postage

Postage rates are higher than necessary under the current system. Under a consolidated approach, volume discounts apply, thus lowering rates. In addition, the rate of accountable mail (FedEx, UPS, etc.) can also be negotiated to a less expensive rate if combined for all agencies.

2. Equipment

Current equipment is old, outdated and needs replacement. Replacement parts for equipment currently used are, in many instances, no longer in production thus making it difficult and costly to repair. The contractor would provide new equipment with the latest technology. Lastly, all current state mail equipment would be analyzed for practicality of use, and all equipment deemed unnecessary would be returned at the earliest possible date in compliance with lease expiration. This includes hardware, software, and meters.

3. Vehicles

Current vehicles are depreciating and will need repair and replacement. Information received from agencies indicated that 33 percent of vehicles currently used have more than 70,000 miles and 15 percent have at least 100,000 miles. In addition, more than 25 percent are ten years or older. The contractor would use new vehicles and would be responsible for all operations thus lowering maintenance costs including fuel. With current fuel costs, this could be a significant cost avoidance.

Below is a sample of the vehicle inventory as reported by Executive Agencies. The entire list can be found in Attachment 4.

Vehicle Inventory

	Department	Year	Make	Model	Mileage	Condition of Vehicle	Average Weekly Hours Used
1	AWI	2000	Ford	E150-Van	36,000	Excellent	20
2	AWI	1997	Ford	Ranger Truck	136,000	Good	5
3	AWI	1999	Isuzu	Box Truck	75,000	Excellent	8
4	DBPR	1992	Chevy	Astro Van		Fair	23
5	DBPR	1997	Ford	Escort	28,944	Good	12

The following chart describes current state mail service activities.

Agency	Issue	Area	Notes
Agency for Workforce Innovation	Savings of \$250,000/yr (2003)	Production & Correspondence Mail	Most of the savings were realized with labor reduction and process improvements. While there was a 98% increase in outgoing mail from 2002 to 2003, overall costs were reduced by 16%. There was a substantial savings opportunity in penalty mail that has been declined to date (approx. \$300K/yr). With the proposed efficiencies of combining 22 state agencies, it is estimated that AWI's costs would be reduced approximately 40% overall since initial start-up.
Department of Children & Families' Disability & Determinations	Savings of \$510,000/yr (2003)	Production Mail, Correspondence Mail and Courier Services	Most of the savings were realized with labor reduction and process improvements. This operation encompasses five locations and utilizes 30 FTEs across the state.
Executive Agencies	Utilization	Equipment	Each agency is "siloe" and utilizes individual mailing equipment which is grossly underutilized. A centralized environment would drastically reduce equipment needs and eliminate the unnecessary expense of redundancy.
Executive Agencies	Resource Management	Labor	Each agency is staffed to perform mail functions that take place at specific times of the day. This results in significant "down time" where employees could be used more effectively. A centralized environment would allow for a more efficient utilization of human resources.
Executive Agencies	Process Efficiencies	Technology	The state's mailing technology is woefully deficient in many areas (e.g. mail processing equipment, incoming tracking systems, record keeping, postage maintenance, address cleansing, etc.). PB would provide leading edge technology that would improve process efficiencies while reducing costs.
Executive Agencies	Postage Float	Meter Replenishment	The Executive Agencies have over 600 meters throughout the state of Florida. These meters maintain an average of \$800,000 to \$2,000,000 on any given day. These funds are sitting idle continuously and costing the state money in lost interest and most of it could be made available for other projects. PB would implement a "just-in-time" centralized postage process which would allow the state to keep minimal amounts of postage in their meters and provide full accountability for all meters across the state.
Executive Agencies	Redundancies	Courier Runs	Each agency has internal and/or external couriers delivering to various agencies throughout the day. There is a tremendous amount of overlap and costly redundancies in this area. PBMS would examine the current delivery needs and streamline the routes and significantly lower the state's current courier costs.
Dept Of Corrections	Savings of \$753,996/yr	Correspondence Mail	This is a compilation of the fifty-six Correctional Institutions across the state. It reduces the headcount from 186 to 176 and uses current state pay rates (estimated). These savings are based on "labor only" and not equipment.

Consolidation Comparison – Consolidating In-house vs. Consolidating & Outsourcing

Agency Name	Mailing Machines	Inserters	Sorters	Vans	Real Estate Sq. Ft. (est.)	Staff	Management	Vendor Staff (est.)	Vendor Mgmt (est.)
Agency for Health Care Administration	3	0	0	0	2,000	3.5	1	2.5	0.5
Agency for Workforce Innovation	4	2	0	2	3,000	8	1	7	1
Dept of Business & Professional Regulations	2	0	0	2	2,000	4	1	3	0.5
Dept of Children & Families	3	2	1	2	6,000	15	2	13	1
Dept of Community Affairs	1	0	0	1	5,00	1	0	0	0
Dept of Corrections	1	0	0	2	2,000	93	1	93	1
Dept of Education	4	0	1	0	2,000	5	1	4	0.5
Dept of Elder Affairs	0	0	0	0	500	1	0	0	0
Dept of Environmental Protection	3	0	0	4	1,000	7	1	6	1
Dept of Health	2	0	0	2	3,000	5	1	3	0
Dept of Highway Safety & Motor Vehicles	2	2	1	1	5,000	20	2	16	1
Dept of Juvenile Justice	0	0	0	0	1,000	4	1	3	0.5
Dept of Law Enforcement	1	0	0	1	1,000	5	1	4	0.5
Dept of Management Services	1	2	0.05	2	3,000	3	1	2	0.5
Dept of Revenue	2	1	1	1	5,000	53	4	39	2
Dept of State	1	0	0	4	1,000	3	1	2	0.5
Dept of Transportation	2	0	0	1	3,000	5	1	4	0.5
Dept of Veteran's Affairs	0	0	0	0	500	0	0	0	0
State Board of Admin	1	0	0	1	1,000	4	1	3	0.5
Fish & Wildlife Conservation Commission	2	0	0	2	1,000	4	1	3	0.5
Florida Lottery	0	0	0	0	1,000	4	1	3	0.5
Division of Administrative Hearings	1	1	0	0	500	1	0	0	0
Total	36	10	4.05	28	45,000	263	24	223.5	13
Proposed State Term Contract Solution	16	4	1	13	20,000	N/A	N/A	223.5	13
Reduction Difference (Percentage)	55%	56%	67%	54%	56%	N/A	N/A	15%	46%

1.05 The Detailed Recommended Solution

Consolidating Mail Services Operations

The Center recommends consolidating all Executive Agency Tallahassee mail rooms into one centralized location in Tallahassee. Further, the Center recommends that the vendor also operate mail facilities located in correctional facilities statewide. By consolidating individual mail service operations into one, centralized operation Executive Agencies could more efficiently and effectively conduct their mail services.

Through consolidation, initial estimated savings should be realized due to an estimated 56 percent reduction in rent alone. In addition, much of the excess space would be premium space located downtown which could move private leases into state owned space, resulting in increased revenue and additional savings. Using a central facility also limits security risks.

Realigning current resources would allow for more efficient scheduling to meet peak and non-peak volume fluctuations, resulting in a reduction of overtime while providing for sufficient staffing during slower periods. The elimination of multiple pick ups from the USPS and other locations increases efficiency by reducing duplicative efforts.

The optimal solution would approach the current environment in four specific areas:

- **Optimization of operations via consolidation**
- **Integrated, networked cash management of postal/carrier funds**
- **Increased efficiency & extensibility via new technologies**
- **Increase mail density for presorting**

The goal in reevaluating mail service operations was to find the most robust solution for the state to incorporate using an enterprise approach, to find a solution that could quickly and easily be implemented with a seamless transition and to identify a solution that would not require additional cash outlay from the state.

1.06 Identify State and Agency Impact

All Executive agencies and their current mail service employees, as well as those agency's customers, are impacted. **However, all effected employees would be offered positions with salaries and benefits equal to or better than their current pay with the contractor mitigating any negative impact.**

The method of service delivery would change as mail services are integrated into a central location rather than within each individual agency. By centralizing mail services, the number of vehicles currently used will be reduced by 54 percent from 28 to 13; equipment used will be reduced by 58 percent from 50 to 21; and rental space will be decreased by 56 percent from 45,000 square feet currently being used to 20,000 square feet in the proposed centralized facility.

The change would result in enhanced service delivery at a lower cost with improved security and accountability. Further, this would allow agencies to focus resources on their core activities.

Risks Associated with Proposed Mail Service Operations

- **Contractor fails to deliver services.** There is always some risk that a contractor would not deliver the terms of the contract. However, this risk can be mitigated with performance incentives written into the contract, performance bonds and creation of a strong contract management plan for the State.
- **Disruption of service.** There is a risk that mail services would be disrupted during any transition. This risk appears to be minimal since the current state mail services contract provider operates regional processing centers in Tallahassee, Jacksonville, Orlando, Tampa, and Miami. The vendor has tremendous experience in managing complex transitions and the Center would work closely with the Department of Management Services, affected agencies and the vendor to minimize disruptions in service.

The risks for maintaining services in-house far outweigh any potential risk with consolidating and outsourcing operations. This is primarily due to the high cost of upgrading the entire process and the new equipment and vehicles that are needed. Risks associated with outsourcing can be mitigated with a strong contract and monitoring plan.

1.07 Explain Transition Management Strategy:

The transition management strategy includes the creation and use of a change management team using current resources from the Department of Management Services (DMS), the Center, impacted agencies and the vendor to address and resolve any issues related to the transition and implementation of this proposal; a communications plan to keep internal and external customers informed of the progress and status of the project; an employee transition plan; and, an employee and customer training plan.

Change Management Plan

Upon the approval of this proposal, the Center intends to create a change management team comprised of senior level staff from select affected agencies and vendor staff to solicit input from the various impacted agencies. The team would include, but not be limited to, the Department of Management Services' Communications Director and Administrative Services Division Director, representatives from impacted agencies and contractor representatives. This team would oversee the transition and implementation of the proposed mail services consolidation.

The change management plan envisions the use of several go/no-go decision points to control the scope and quality of the project. There would also be ongoing communications between the change management team and internal and external stakeholders in the form of a departmental website, email and in-person informational sessions addressing the outsourcing initiative with affected employees, agency management and any other interested parties.

Communications Plan

A flexible communications plan would be developed upon execution of a contract in conjunction with the vendor to keep internal and external stakeholders informed for project's progress. It is the DMS' expectation that the communications plan would clearly identify all stakeholders and employee classes to be impacted by the project, along with identifying the most effective manner to facilitate the development of clear pathways for affected employees to seek and obtain information or assistance. It is envisioned that the communications plan would make use of email, flyers, workshop training sessions, in-person informational sessions and agency websites to distribute information to impacted staff, agency personnel and other interested parties.

Employee Transition Plan

As part of the implementation of this proposal, it is the Center's intent that the vendor will retain all current Executive Agency mail services employees, who choose to accept employment with the vendor, at a minimum of their current salary and benefit levels.

The vendor would evaluate current staff to determine how their particular skill sets would be best utilized in the consolidated mail services facility and work plan. Based on this evaluation, current employees would be given the opportunity to transfer from state employment to employment with the vendor.

The parameters of the transition of these employees would conform to the guidelines of the Governor's Center for Efficient Government's Employee Transition Guide.

Employee and Customer Training Plan

It is the expectation that the vendor would be responsible for conducting initial and ongoing employee and customer training under terms of any agreement signed pursuant to this proposal. Customer training would be conducted in-line with an agreed upon roll-out schedule. It is expected that such training would be offered in both web-based and in-person environments. All current state mail services employees who are transferred to employment with the vendor would be provided training.

It should be noted that Pitney Bowes has been a leader in the mail services industry for over 80 years and their experience includes large and multi-faceted private sector organizations, as well as long-term relationships with local, state and federal government agencies.

Transition Phase-In

The vendor, in consultation with the change management team, would determine the most cost effective roll-out plan for converting mail services for each Executive Agency. It is anticipated that a phased roll-out during Fiscal Year 2004-05 would address any agency unique issues. As part of the development of a roll-out plan, the various programs, services, functions and/or computer systems that would need to run in parallel until implementation of this project would be identified.

It is the expectation that the transition phase-in period occurs in such a manner to minimize any potential decline in either performance or customer service. The vendor would be responsible for reporting through the use of state approved performance standards, its service levels and customer service satisfaction levels.

The project management team would be responsible for ongoing performance and contract monitoring to ensure the vendor is meeting the agreed upon performance and customer service standards.

1.08 Identify and Document Critical Success Factors

Critical success factors in consolidating the Executive Agencies mail service centers are:

- Significant cost reduction (cheaper)
- Increased service level (better and faster)
- Higher degree of accountability
- Employee retention
- Mail security

Cost reduction

Cost reduction would be measured by comparing the annual amount paid to a private vendor against current agency mail center costs.

Savings would be realized in several areas, primarily through increased efficiencies of new equipment and technology, better postage management, and a more efficient utilization of human resources. In addition, consolidation would reduce the footprint needed for operations generating less rent and possibly opening up a new revenue stream by converting state space into private sector leases.

Increased service levels

Increased service levels would be measured with customer satisfaction surveys and monthly service level reports provided by the contractor. The speed and consistency of mail delivery would be the primary benefit. Mail would be delivered more quickly and consistently by reducing errors and time delays.

Accountability

A higher degree of accountability would be measured in the monthly performance report as well as in the monthly service level report. Performance would be measured for each of the following: incoming and outgoing volumes, times of all mail and courier runs, accountable recipient signatures, and quantified monthly savings. In addition, all relevant personnel would be bonded to the highest level necessary as required by the State of Florida.

Employee retention

Employee retention would be measured by the number of employees that are displaced. The contractor has guaranteed a position for every affected employee.

Mail Security

As part of the contract, the vendor would be required to adhere to mail security standards as directed by the Florida Department of Law Enforcement and all applicable federal standards and requirements. The following table represents a generic description of options offered by the current state term contract provider for secure mail processing.

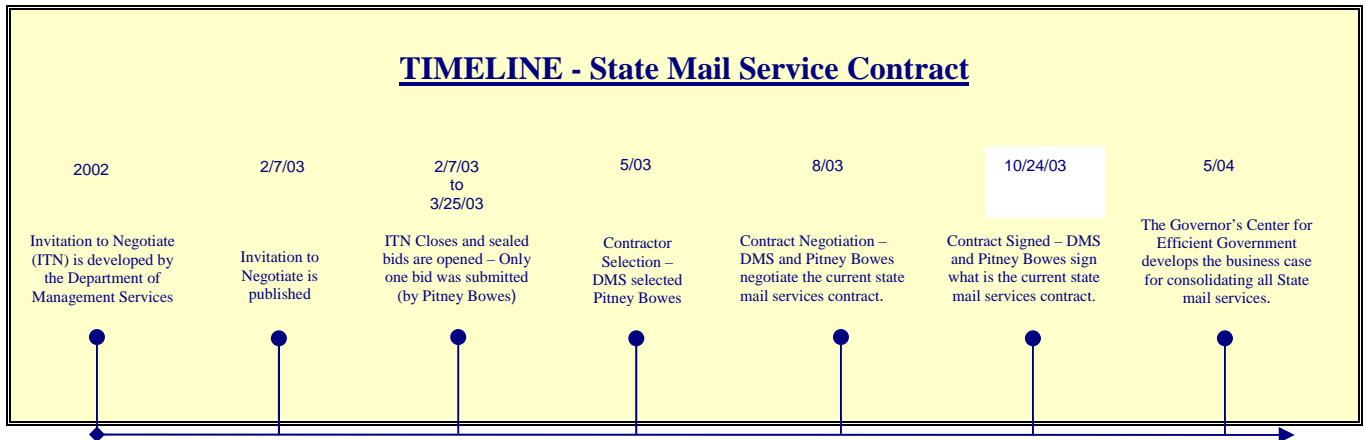
Mail Center Security

Item	Secure Mail - Standard	Secure Mail - Advanced	Secure Mail – Premium
Included in service level	Sort and deliver all USPS, express carrier and interoffice mail. Screen for suspicious mail.	Sort and deliver all USPS, express carrier and interoffice mail. Screen for suspicious mail. X-ray all incoming mail and parcels.	Sort and deliver all USPS, express carrier and interoffice mail. Screen for suspicious mail. X-ray all incoming mail and parcels. Open all mail.
Gloves and respirators	Available	Available	Available
Optional Services			
USPS pick up	Optional	Optional	Optional
X-Ray	Not an option	Interoffice mail – optional	Included
Open mail	Not an option	Not an option	Included
Off-site mail processing	Optional	Optional	Optional
Biohazard Detection	Not an option	Not an option	Optional
Image mail and deliver electronically	Not an option	Not an option	Optional

1.09 Outline the Proposed Procurement Process

In 2002, the Department of Management Services used the competitive procurement process to obtain a state contract in order to provide more cost effective and efficient mail services for Florida's statewide operations. In February 2003, the Department of Management Services initiated an Invitation to Negotiate (ITN). Pitney Bowes Management Services Inc., was the only bidder on the ITN. In October 2003, a contract between Pitney Bowes and the State of Florida was signed and is valid through September, 2006.

The Center identified the consolidation of mailroom services in Tallahassee, and to the extent possible in district or regional areas with multiple customers, as an opportunity to achieve further and immediate efficiencies/savings and improve the level of service to agencies and their customers. The Center believes that the State would benefit by taking an enterprise wide approach to consolidating and outsourcing mail services.



1.10 Conclusion

Consolidating Executive Agency's individual mail service functions into one, centralized operation would provide **improved services, accountability and cost savings**. Reengineering current resources is cost prohibitive due to operating capital outlay costs, vehicle purchases, operations and maintenance needs, and employee retention issues. Consequently the Center for Efficient Government recommends negotiating the current state contract for mail services.

Agencies have the ability to negotiate individual contracts with the current state contractual provider for outsourced mail services. By negotiating individual contracts, agencies could realize increased savings, efficiencies and effectiveness. However, an enterprise wide approach would result in even further savings than if each agency negotiated individually.

By employing Governor Jeb Bush's philosophy of a "smaller, more efficient government," consolidating the state's individual mail service operations would provide increased efficiencies and accountability while **saving Florida taxpayers more than \$60 million during the next ten years**.

Next Steps

- If approved, the Department of Management Services (DMS) would form a contract team comprised of a sampling of senior level staff from affected agencies. Once the team concurs on contract deliverables, the DMS will negotiate a joint task order under the current state term contract (Contract #991-530-04-1) with Pitney Bowes, Inc. This is authorized under section 2.5.2 of the current state term contract, which states, "In order to maximize efficiencies, Customers may join together to use a single Task Order to the Service Provider."
- Per section 2.5.3 of the current state term contract, Pitney Bowes will submit a pricing model to the Department of Management Services that shall follow one of two methods:
 1. Management Fee Model – Under the Management Fee Model, the Service Provider shall detail the cost associated with the scope of work, and the Service Provider's expected cost and margin figures. The price offered shall be based on this cost and margin. In no event shall the Service Provider's margin exceed 23.5% (or 25.5%, in the event that the scope of work includes Secure Mail Services).

During negotiations under the Management Fee Model, the Customer may choose to pursue a Fixed Price Project (FPP) or Cost Per Piece (CPP) approach. Under the FPP approach, the Service Provider will accept a firm price for performing all services detailed under a Task Order. Under the CPP approach, the Service Provider will charge the Customer on a "per piece" basis.

2. Shared-Savings Model – Under the Shared Savings Model, the Service Provider shall detail the costs associated with the scope of work, and identify the Estimated Savings that might be achieved (Service Provider's estimated cost to provide the services, less the Customer's current costs to provide identical services).

Rather than use the Management Fee Model discussed in (1.), above, the Service Provider and the Customer shall agree to share the Actual Savings (Service Provider's actual costs to provide the services less the Customer's costs, which were identified in the initial analysis). This Actual Savings will be shared between the parties. The specific percentage split will be identified in the appropriate Task Order. In no event shall the split exceed 50% to the Service Provider. The Savings must be reported to the Customer and invoiced appropriately, on a monthly basis.

Due to the fluctuations in mail volumes, the Service Provider shall provide costs using the Cost Per Piece approach under this Shared-Savings Model.

A final business case based on the terms and conditions of a joint task order would be developed and disseminated prior to implementation of this project.