

REPORT TO THE LEGISLATURE: PRINT MAIL

MARCH 2013

BACKGROUND

In fiscal year 2012-13 Supplemental Budget, Item 1760-001-0666--#1, stated that “DGS shall examine current State expenditures for mail and postage and report to the Legislature not later than January 1, 2013, the amount of money that could be saved by adopting enterprise-wide mail best practices including but not limited to the use of presort mail opportunities to maximize postage discounts, using modern technology to identify lowest rates, depositing postage funds in interest earning postage accounts, reviewing and redesigning mailings for postage savings, and assessing the potential for digital mail technologies.”

This report describes the current state and current savings, and provides recommendations for achieving future efficiencies and savings in the following categories:

1. Presorting mail opportunities to maximize postage discounts
2. Using modern technology to identify lowest rates
3. Depositing postage funds in interest earning postage accounts
4. Reviewing and redesigning mailings for postage savings
5. Assessing the potential for digital mail technologies

2011-12 STATE MAILING OPERATIONS OVERVIEW

During 2011-12, state entities produced and mailed approximately 336.8 million pieces of mail and small parcels at a cost of approximately \$243.6 million, not including the cost of the envelope and its contents.

- \$176.1 million for postage and delivery services
- \$46.2 million for state salary and benefits
- \$10.8 million for equipment maintenance and licensing fees
- \$10.5 million for ongoing specialized equipment upgrades and replacement needed to maintain an \$87.6 million mail production infrastructure

PRESORTING MAIL OPPORTUNITIES TO MAXIMIZE POSTAGE DISCOUNTS

Where We Are

In FY 2011-12 the state saved, or cost avoided, approximately \$15 million in postage by preparing and submitting mail in accordance with the United States Postal Services (USPS) automation presort program. This, however, does not account for increased staff time or vendor fees, that often come with higher levels of presorting.

Percent of Presorted Mail

Mail Type	Volume	Postage/Fees	Percent
First Class Sorted	284,413,706	\$112,920,287	98.0%
Standard Mail Sorted	2,023,010	\$861,316	0.7%
Total Mail Sorted	286,436,716	\$113,781,603	98.7%
First Class Not Presorted	3,740,145	\$20,464,413	1.3%
Total Suitable for Presort	290,176,861	\$134,246,016	100%
Mail Not Suitable for Presort	46,650,560	\$41,877,120	
Total Mail	336,827,421	\$176,123,136	

Preparing mail in accordance with strict technical requirements of the USPS qualifies the mail for postage discounts. These discounts are commonly referred to collectively as *Presort discounts*. Meeting all of the USPS Presort discount requirements involves the use of more expensive quality materials, the acquisition and application of special software, printers, and mail processing equipment, and the retention of specially trained staff and supervisors. Some mail is not sortable. This includes mailings of a non-standard size or weight (19.1 million pieces), those with special services like delivery confirmations (15.4 million pieces), those that are security sensitive (6.7 million pieces) or mailed from distant locations that are unable to be served by pre-sorters daily (3.2 million pieces). Additionally, some mail is sent through courier services (2.2 million pieces) and also is not pre-sorted. Of the state's 336.8 million pieces of mail, there are approximately 46.6 million that fall into this non-sortable category.

Of the remaining 290.1 million pieces of mail suitable for presort processing, approximately 286.4 million pieces, or 98.7 percent of the mail is being submitted to the USPS with a presorted discount postage. This percentage includes both state in-house processing and pre-sort vendor processing.

Mail Type	Volume	Percent
Presorted	286,436,716	98.7%
Not Presorted	46,650,560	1.3%
Total Sortable Pieces	290,176,861	100%

What We Can Do

With 98.7 percent of the state's large mailings being submitted through government-owned and vendor-owned presort processes, the state is already taking advantage of many best practices in handling its mailings, and realizing significant savings by doing so. However, there are opportunities to further reduce mail-handling expenses. Changing the way mail is prepared, increasing the volume of smaller mailings that are presorted and seeking out lower cost presort vendors can further enhance the state's savings.

1. **Computer-presort mail before printing:** To increase presort discount levels and realize savings, the state should adopt industry best practices of computer-sorting the mail before it is printed rather than the current practice of using machines to sort the mail after it is printed and inserted into envelopes. State entities have long had the ability to pre-process their print jobs to produce mail in presort order, thus eliminating expensive and time-consuming machine sorting.
2. **Send mailings of less than 500 pieces to central state-operated pre-sort hub:** The State of California could save approximately \$8.5 million in postage costs every year if state entities presorted their lower qualifying mail, or mailings of lower volumes than the 500 piece mailings considered ideal for sorting, by sending it to a central state-operated pre-sort hub. Currently, some of this lower qualifying mail is mailed and sorted at individual departments. By combining the volumes across departments, sorting could be more comprehensive and achieve further discounts. Any one of the state's seven print and mail shops that have sorting equipment could serve as this hub. This essentially would bring all of the state's mail into one place for printing and pre-sorting on a mass level. When all of the state's lower qualifying mail is combined into one large, sorted hub, USPS provides higher levels of discounting because the sorting they would do is already done. Mail sorting machines currently owned by state entities would be transferred to the operator of the state presort-hub who would own and operate all such equipment in the future. This hub would provide machine sorting as a contract service for other entities when needed, and for the processing of daily office mail.
3. **Use a Master Services Agreement for pre-sort vendors:** To the extent that it is desirable or necessary to use a private mail presort vendor, these services should only be obtained through a master services agreement maintained and monitored through the Department of General Services (DGS) in order to ensure that the best rates are obtained by all state entities. The current practice of individual agreements between the vendor and state entities has resulted in significantly different rates of discounts. These rates do not reflect the quality of the state's mail and result in lower than appropriate discounts.

USING MODERN TECHNOLOGY TO IDENTIFY LOWEST RATES

Where We Are

During 2011-12 state entities reported mailing, or delivering through commercial courier,

approximately 4.8 million letters and small parcels. Contract courier delivery charges for 2011-12 were approximately \$29.9 million. State entities are limited to statewide negotiated contracts for all courier services, and select vendors based upon cost, location, and the particular services they need. Departments represent that they make the best business choice when selecting a vendor for shipping a parcel, and that price is a very high consideration in their choice. Although this is the assumption and directive, it cannot be confirmed that departments choose the low-cost courier every time. Because of this, insufficient data was available to determine if the mandated use of an automated selection process, or a computer program that compares different courier company prices for a given parcel, commonly called a “rating engine,” would have substantially reduced the cost of courier services.

What We Can Do

The DGS Partnership Council will meet with appropriate staff from state departments to discuss commercial options currently used. Discussions of best practices will occur and the Partnership Council will discuss rating engines at their upcoming quarterly meetings.

DEPOSITING POSTAGE FUNDS IN INTEREST EARNING POSTAGE ACCOUNTS

Where We Are

Reporting entities rely heavily upon commercial postage meters and are often placed in the position of having to transfer funds from government accounts into private vendor accounts in advance of actually using the meters to affix postage to envelopes. The process of transferring funds is described as time consuming and disruptive; departments tend to minimize the frequency by transferring large amounts earlier than needed. Also, towards the end of the fiscal year, if it appears that a budget may not be enacted on time, state entities may transfer funds into private vendor accounts to ensure that postage funds will be available without interruption.

The average monthly amount being held by private postage meter vendors statewide is approximately \$15.5 million. While most of these funds were held in “vendor interest bearing accounts,” the accounts earned 0.0333 percent per month, and were subject to a variety of transaction fees and restrictions that could negatively impact any anticipated return; some entities reported difficulty and delays in vendor accounting for accrued interest. As a comparison, the State Treasurer’s Pooled Money Investment Account paid monthly rates ranging from a low of 0.358 percent to a high of 0.408 percent during the same period.

State departments reported that they are not specifically budgeted for postage (postage funds were not identified or set aside in budgets), and some entities only received postage funds as part of general operating expenses on a flow basis throughout the course of the budget year. During 2011-12, this expenditure was approximately \$146 million.

Approximately 91 percent of postage expenditures are made by only ten state entities, and all

ten report using interest-bearing vendor postage accounts for some or all of their large production mail postage accounts.

What We Can Do

1. **Use permits instead of meters for large mailings:** To the extent that postage funds are available in advance of their being used, best practice for state agencies would be to abandon the use of postage meters for all scheduled large mailings, and to complete these mailings using permits. These permits, obtained from the USPS, provide a pre-set postage rate and permission to mail bulk mailings at these discounted rates.
2. **Restrict the use of postage meters:** State entities use of postage meters should be restricted to daily office mail, mail requiring special services such as “Certified,” “Return,” “Priority,” “Registered,” and mail generated in remote office locations.
3. **Limit the time state funds can sit in private postage accounts:** Amounts deposited into commercial vendor postage accounts should be limited to no more than 45 days estimated expenditures to avoid large sums of money sitting for long periods of time in private low interest bearing accounts.

REVIEWING AND REDESIGNING MAILINGS FOR POSTAGE SAVINGS

Where We Are

Many state agencies have been working to increase their internet web presence, and allow constituents to research information, make application for services, and to pay taxes and fees electronically. The Employment Development Department has substituted Electronic Debit Cards for biweekly unemployment and disability checks. The Department of Justice has reduced written administrative communications by approximately 50 percent, and the State Compensation Insurance Fund has moved over 40 percent of its business transactions from mail to electronic forms.

What We Can Do

1. **Convert mail to electronic communications:** There are considerable opportunities for converting from mail to electronic communications such as email or online databases, provided that appropriate technological solutions can be identified and implemented. State departments were asked what volume of mail could possibly be converted to a digital solution; details are provided in the table on the next page:

**POTENTIAL FOR CONVERSION OF MAILING TO ELECTRONIC COMMUNICATION
(Mailings larger than 500 pieces)**

Potential for Conversion	Mail Volume	Current Postage Cost	Potential Postage Savings (50 pct. Adoption)	Potential Postage Savings (90 pct. Adoption)
Possible Now	24,682,231	\$10,840,221	\$5,420,111	\$9,756,199
Possible with Technology Procurement	178,866,765	\$73,359,523	\$36,679,762	\$66,023,571
Possible with Legal or Mandate Change and Technology Procurement	11,658,394	\$4,632,223	\$2,316,112	\$4,169,001
Totals	215,207,390	\$88,831,967	\$44,415,985	\$79,948,771
Not Feasible	75,041,441	\$23,868,872		

The data suggest that between \$5.4 million and \$9.8 million in postage expenses could be saved today by converting mail to other forms of communications without any technical or legal changes, but beyond that point, it becomes necessary to invest in new technology and to seek changes in regulations or statutes.

2. **Cautiously explore available commercial solutions:** While the elimination of mail presents the highest potential for modernizing business practices and reducing costs, it represents the most technologically challenging and potentially time-intensive effort. It has been suggested that commercial solutions are available that would meet the technology needs of California; however, a review of current offerings suggests that this claim is substantially overstated.

Attempts to launch commercial solutions in this technology niche in the United States have been beset with multiple delays over a period of three and a half years. As of this writing, there is no operational system approaching the scale of what would be needed to support this state.

There are at least three competing architectures, each with its own set of scale, cost, and security challenges that, at a minimum, will require thorough vetting. Given the high potential for improved government efficiency and savings, a DGS Partnership Council focus group will explore this topic and meet with experts on electronic mail solutions and partner to procure such technologies where possible.

ASSESSING THE POTENTIAL FOR DIGITAL MAIL TECHNOLOGIES

Where We Are

Digital mail technologies include the electronic delivery of a consumer's bills, statements, notices, and other customer correspondence to a secure, online mailbox. All of the

consumer's digital communications can be viewed, bills paid, and letters stored without requiring the consumer go to the website of each entity he/she deals with. It is different from email in that it is a secure system that links known senders with known recipients.

What We Can Do

As stated above, there is high potential for improved government efficiencies and savings in digital mail technologies. The DGS Partnership Council focus group will explore this topic. The Partnership Council will meet with experts on electronic mail solutions and partner to procure such technologies where possible.

CONCLUSION

The DGS believes that the formation of a focus group within the DGS Partnership Council will lead to adoption of many efficient and cost reducing methodologies including:

- Using a “rating engine” to find lowest cost of courier services (savings unknown, but expected to be minimal).
- Changing the way mail is processed and prepared for submission to the USPS to achieve further pre-sort discounts, establishing a state pre-sort hub to further use computer-sorting on the mail before it is printed (savings of up to \$8.5 million).
- Creating a master services agreement with private mail presort vendors in order to leverage mail volumes and ensure that all state entities are receiving the best rates from these vendors (savings unknown).
- Restricting the use of postage meters for all scheduled large mailings (increased interest earnings on an average monthly balance of \$15.5 million plus fees associated with postage meters).
- Restricting the amount of funding stored on postage meters to no more than 45 day estimated expenditures.
- Converting all mail possible to electronic solutions (Savings of up to \$9.8 million).

State Departments will be instructed to adhere to the above best practices when possible, and the DGS will begin discussions with the Partnership Council to realize future efficiencies and cost savings.

APPENDIX

Table I
Summary of All Mailing and Courier Services 2011-12

Mail Type	Volume	Postage/Fees
First Class Mail	314,617,633	\$133,384,700
Standard Mail	2,023,010	\$861,316
Bound Printed Matter	13,626,114	\$3,389,509
Priority Mail	777,718	\$3,747,411
Express Mail	17,228	\$211,439
Certified Mail	387,088	\$792,131
Certified Return Receipt Mail	597,783	\$3,817,848
Registered	2,007	\$22,473
Courier Services	4,778,840	\$29,896,309
Total All Mailing and Courier Services	336,827,421	\$176,123,136

Table II
SFY 2011-12 Mail Production and Processing Staff and Staff Costs

Classification Group	Personnel Years	Salary and Benefits Paid
Information Technology	93	\$6,732,784
Production Mail Operations	428	\$23,644,332
General Overhead Operations	323	\$15,846,870
Total	844	\$46,223,986
Management and Supervisorial Classifications Included in Figures Above	89	\$7,044,260

Table II

Department	Postage/Courier Expenditures	Percent of Total
Department of Motor Vehicles	\$43,498,775	25%
Employment Development Department	\$38,889,100	22%
Department of Child Support Services	\$16,006,109	9%
State Controller	\$13,926,094	8%
Franchise Tax Board	\$12,532,613	7%
Lottery Commission	\$8,881,850	5%
Department of Health Care Services	\$8,020,587	5%
Department of Corrections and Rehabilitation	\$7,168,121	4%
State Compensation Insurance Fund	\$6,540,867	4%
Department of Social Services	\$4,357,300	2%
Subtotal	\$159,821,416	91%
All Others	\$16,301,720	9%
Total	\$176,123,136	100%

TABLE IV

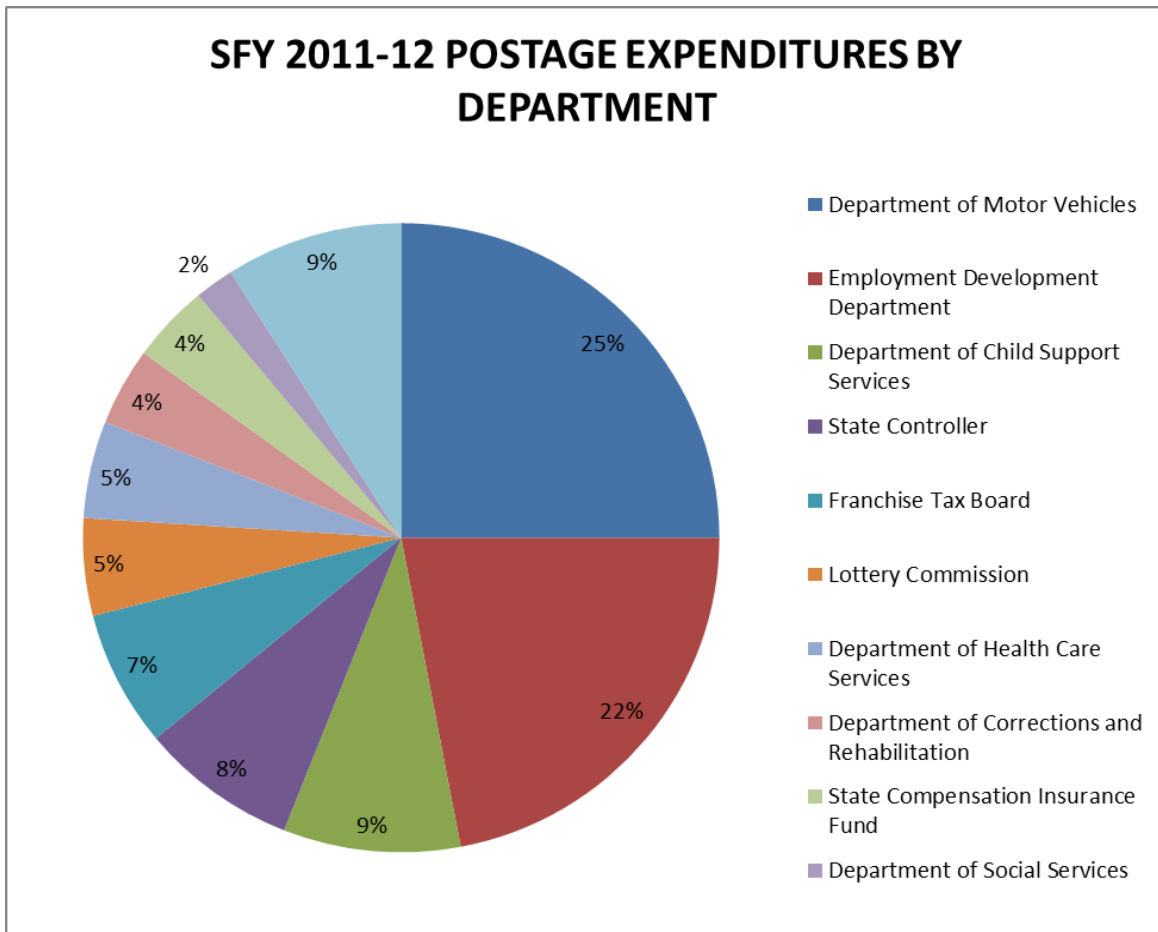


TABLE V
Production Mail Equipment and Software
Planned Replacement Schedule

State Fiscal Year	Estimated Cost
2012/2013	\$5,866,698
2013/2014	\$16,912,375
2014/2015	\$8,238,393
2015/2016	\$11,194,352