

12400

King County Office of Information Resource Management

Printing & Graphic Arts Business Plan

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The Executive acknowledges the contribution of all the individuals named and has considered the advice provided, however the conclusions and recommended actions contained in this report are the Executive's.

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2 Introduction

2.1 Project Background

The King County Printing & Graphic Arts (P&GA) section under the Office of Information Resource Management (OIRM) offers quality printing and graphic services to King County agencies and, recently, to surrounding counties, the City of Seattle, Washington State, and associated nonprofit organizations. Despite a wide customer base, P&GA has experienced operating losses due to many factors, including changes in the market environment.

The King County Council requested the Executive to work with the Washington State Department of Printing (State Printer), to develop a business plan to aid in creating a successful and self-sustaining business strategy.

In early 2006, P&GA began work with the State Printer to complete a preliminary assessment and evaluation of current business practices. The purpose of the assessment was to compile results of previous planning efforts and a review of current P&GA operations. This work provided a basis for analysis of options for P&GA's future.

During the course of the assessment and the creation of a July 12th draft Business Plan that was widely circulated, it became apparent that a turnaround would require a tremendous additional investment by the county. Upon review by the King County Executive, the scope of the business plan was changed to provide three options for P&GA future, including a scenario of transitioning operational control to the State Printer.

2.2 Objectives

The primary goal of this plan is to provide options and a recommendation for the future of P&GA.

2.3 Project Scope

This business plan will incorporate the State Printer's assessment and findings and respond to the King County Council's proviso in the 2006 Budget Ordinance #15333 (Appendix F).

The proviso states:

[SECTION 14. OFFICE OF MANAGEMENT AND BUDGET] ... P2 PROVIDED FURTHER THAT:

...Of this appropriation, \$50,000 shall not be expended or encumbered until the council reviews and approves by motion a business plan for the printing and graphic arts operations that incorporates the findings and assessment by the Washington State Department of Printing of the most practicable way for the county to meet its printing and graphic arts needs...

This plan also includes results of an internal review of P&GA's operations and provides options for consideration.

3 Operations

3.1 History

P&GA was created from the merger of Metro Transit and King County print shops, and is staffed to provide graphic design and printing services to the agencies of King County and other local governments. Although P&GA continues to provide services, over time several factors have contributed to operating losses. These include increased competition from private sector shops, advances in technology that have resulted in immediate access to high quality desktop printing and graphics, and internal resources within county departments. As the revenue has decreased and expenses have increased, P&GA has become less competitive in the printing and graphic arts marketplace and did not make investments in technology and management support systems. This resulted in agencies contracting with independent print shops to fulfill their printing and graphic needs, continuing to impact P&GA's bottom line.

In 2001, the King County Executive issued an order mandating that Executive branch agencies utilize P&GA's services. The intention was to direct work to P&GA and, through economies of scale, allow agencies to obtain an anticipated cost savings. While P&GA's volume increased, a substantial amount of work was either outsourced or covered by internal staff and resources. The executive order was not systematically enforced and agencies continued to use outside vendors or internal staff to fulfill their printing and graphic needs.

P&GA has undergone numerous efforts to increase its profitability and utilization by other county agencies but the agency has not become the self-sustaining organization envisioned. As detailed in Appendix E's findings and recommendations, many challenges exist related to increasing P&GA's market share. The timeline presented below highlights major events and studies, as well as efforts conducted by the agency.

- 1996: Metro Transit and King County print shops merge.
- 1998: Graphic arts and photography services join P&GA.
- October 1999: Business plan is developed by P&GA in response to 1999 Annual Budget Ordinance proviso.
- 2001: King County Executive issues executive order to use P&GA resources.
- 2001: Video services become part of P&GA.
- April 2004: P&GA's negative cash flow began
- September 2004: City of Seattle print shop closes and King County signs an agreement to reopen copy center to provide services to City of Seattle agencies.
- April 2005: P&GA physically takes over lease of City of Seattle copy center (current Seattle Municipal Tower [SMT] location).
- September 2005: Executive Finance Committee requests report on year-end status of fund and financial allocation details at December meeting.
- November 2005: King County Council issues proviso in 2006 Budget Ordinance #15333.
- December 2005: As part of King County Department of Executive Services (DES) study on service level agreements, Griffin, Hill & Associates, LLC conducts customer service survey of P&GA internal customers.
- January 2006: P&GA submits response to Executive Finance Committee.
- March 2006: P&GA submits financials and work plan for completing business plan to Executive Finance Committee.
- April 2006: The State Printer works with P&GA to assess business practices.

- May 2006: P&GA contracts with MTG Management Consultants, LLC, to assist with the business plan.
- July 2006: Executive decision was made to shut down copy center operations at the SMT
- July 2006: Information Telecommunication Services was reorganized into the Office of Information and Telecommunication Services (ITSO) within the Office of Information Resource Management (OIRM)
- August 2006: SMT copy center operations were shut down
- September 2006: Executive approved the approach to begin work on State Printer's proposal and feasibility study.

3.2 Customers

P&GA can provide services to various state, county, and local government agencies and associated nonprofit organizations. The following agencies are some of P&GA's largest customers within King County:

- Department of Natural Resources and Parks
- King County Council
- King County Executive
- Enhanced 911 (E-911) Program Office
- DES: Finance and Business Operations Division
- DES: Records, Elections and Licensing Services Division
- Sheriff's Office
- Superior Court
- Department of Transportation
- DES: Employee Benefits
- Department of Public Health

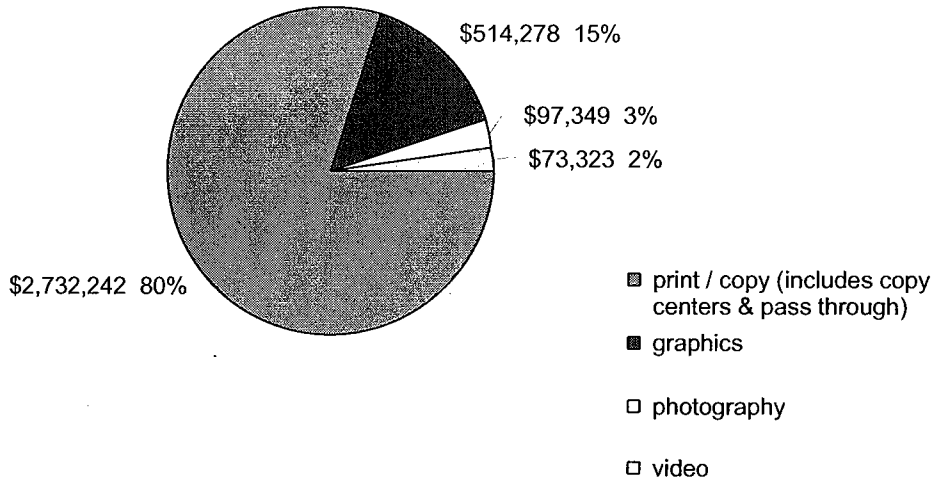
3.3 Services

P&GA provides professional graphic design, photography services, high-speed-network-accessible copying, offset printing, limited variable printing, and video production; however its core line of business is printing, bindery, and photocopy.

Printing, Bindery and Photocopy	<ul style="list-style-type: none"> ▪ Offers single and multicolor printing ▪ Folds, collates, numbers, perforates, binds, cores and drills; full-service bindery ▪ Prints envelopes, letterhead, business cards, stationery, technical reports, books, catalogs, maps, brochures, newsletters, budget books, and annual reports.
Graphic arts	<ul style="list-style-type: none"> ▪ Design consultation, layout creation: technical and annual reports, newsletter, design, program brochures, forms, exhibits, banners, signage, advertising, certificates, plaques, and awards ▪ Transit timetable production, business cards, stationery, and county health forms ▪ Press-ready document creation ▪ Preparation of digital files for printing, including color separations, half toning, imposition, trapping and prepress
Photography	<ul style="list-style-type: none"> ▪ Portraits, photographic documentation, photojournalism, aerial photographs, digital photography, photographic archive, digital archive
Video services	<ul style="list-style-type: none"> ▪ On-site field and studio video production, project documentation, special event production, video journalism
Multimedia	<ul style="list-style-type: none"> ▪ Develop and convert video content to Web-based material, MiniDV, DVCAM, Betacam SP, Digital8, VHS, CD-R, and DVD, assists the county archivists with visual material

In 2006, 80 percent of P&GA's projected revenue¹ is estimated to come from its copy centers and work outsourced with external vendors. To increase volume, the State Printer recommended lowering the copy rate to become competitive with outside vendors which should attract additional business. If volumes were doubled or tripled, overhead expenditures would remain essentially the same since existing equipment and staff are not fully utilized.

Printing & Graphic Arts 2006 Projected Revenue by Line of Business



3.4 Structure

P&GA has 16 full-time career service staff and 3 employees in term-limited-temporary (TLT) positions² in two Seattle locations. Prior to August 2006, P&GA occupied a third location, however during the initial assessment of operations it was projected that the former Seattle Municipal Tower copy center location would continue to operate at a loss and it was closed on August 11, 2006. In addition to lack of business, P&GA's copy rates were confirmed to be well above market rates, due to higher county costs.

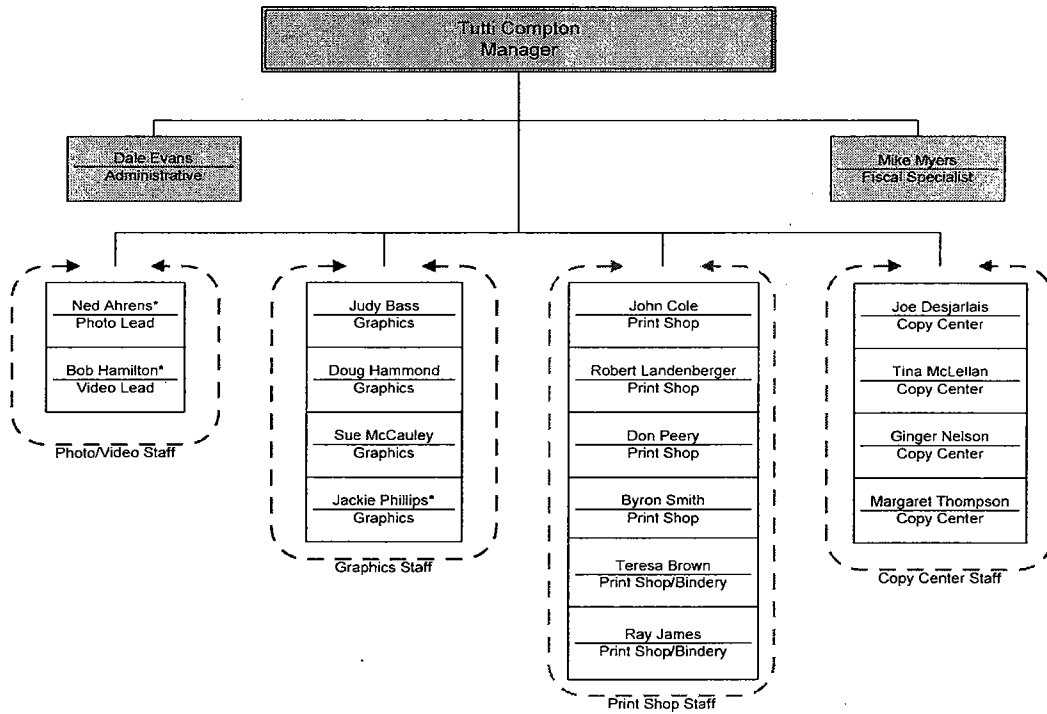
- *Central Facility* – Located at the Graybar Building, 416 Occidental Avenue South in Pioneer Square.
- *King Street* – Located at the county office building in Pioneer Square.

P&GA staff are dispersed between these two locations with one staff located at King Street, and the remaining operating out of the Central Facility.

¹ 7/28 Executive Finance Committee report, with actuals updated through June 2006.

² TLT staff are identified in the organizational chart by an asterisk next to their names.

Below is a chart that illustrates staffing, grouped by function.



Staff breakdown for each group is listed below.

Position	Number of Staff	Position	Number of Staff
Management	1	Administrative/Billing	2
Photography	1	Video	1
Graphics	4	Print shop	4
Copy Center	4	Bindery	2

3.5 Processes

Appendix B provides details of the business processes in place at P&GA. Appendix C illustrates the current billing process. These manual processes have several internal control weaknesses and do not provide for appropriate management and reporting.

3.6 Equipment

As part of the assessment, P&GA's equipment was scrutinized to determine if the equipment was appropriate for the business of each location. In order to do this, meter readings could be tracked to determine machine utilization, but only three of P&GA's machines are equipped with this basic function. During this process, it became clear there was an opportunity to right-size the leased equipment contracts to decrease unnecessary costs.

PGA owns or leases the equipment listed below:

Owned Equipment		Year Purchased	Purchase Price	Estimated Lifespan	Estimated Replacement Cost
Offset Presses	AB Dick 9975 (Perfector)	2002	\$60,000	10 Years	\$85,000
	AB Dick 360	1974	\$10,000	25 Years	N/A
	Ryobi 2800	1984	\$10,000	20 Years	\$40,000
	Itek/AB Dick 3302	1987	\$30,000	20 Years	\$70,000
	Ryobi 3302	1991	\$35,000	20 Years	\$75,000
	Heidelberg KORD	1980	\$52,000	20 Years	\$175,000
	ABDick 9995 Twin Tower Price(1)	unknown	\$21,000	unknown	unknown
	Multi 1650 MC (envelope printer)(1)	unknown	\$2,400	unknown	unknown
	ABDick DPM 2000(1)	unknown	\$4,800	unknown	unknown
	Rosback Model 223A (perforator)(1)	unknown	\$1,800	unknown	unknown
	Programmable Cutter	2001	\$40,000	20 Years	\$65,000
	Challenge 305 Cutter (30.5" width)	unknown	\$1,800	unknown	\$65,000
	Horizon 30 Bin Collator	2001	\$100,000	10 Years	\$125,000
Challenge Drill	1976	\$3,500	25 Years	\$8,000	
MBO Folder	1991	\$17,500	20 Years	\$35,000	
ITEK 430 Camera	1991	\$12,500	15 Years	\$35,000	
Nu Arc Plate Burner	1994	\$4,500	10 Years	N/A	
Leased/Rental Equipment		Monthly Base Price	Click Count Price	Contract Term Date	Contract Term Length
Xerox Xpress 36" Wide Format Plotter		870.93	0	6/1/00-5/31/05	60 months
Xerox Pro35 Copiers (3)		314.00/ea	.0060/copy	8/23/05-8/22/10	60 months
DocuColor 6060		4,721.32	.0910/color .0240/b&w	3/1/905-2/28/10	60 months
DocuColor 12 (2)		4,294.71	.0303 b&w 17,000 color copies free	expired 1/31/05	month to month rental
Docutech 6135 & 6115		14,918.12	900,000 click included for both Docutechs, add'l at .0026-.005 per copy	6135 - expired 6115 - 8/1/02-7/31/07	6135 - month to month 6115 - 60 months

3.7 Financials

The projected financial plan (Appendix D), illustrates the agency's actual revenue and operating expenses for 2004 and the projected operating budget through 2009.³

P&GA has been operating at a loss for the past 2½ years. In 2005, P&GA received a loan in the amount of \$450,000 to cover the operating shortfall. A loan extension was requested in March 2006 with an upper limit set at \$862,000. This amount was determined by adding the projected negative net income of \$179,000 to the estimated year-end fund balance of negative \$572,000,⁴ with the intention to leverage this funding to implement recommendations that would increase revenue and lower operating expenditures in 2006 and beyond.

In addition to this debt, P&GA has several other issues with financial implications. The section is working with auditors from the Department of Revenue to research the last six years of payments due to a recent finding of improper reporting to the Washington State Department of Revenue. Current year taxes have not been paid to date, awaiting the outcome of the audit and the implementation of a standardized tax reporting mechanism.

As noted in the processes section, there are operational deficiencies that will require time and resources to address.

3.8 Utilization

In 2005, P&GA processed more than 18,000 work orders of varying size and complexity. Because of the manual nature of current record keeping at P&GA, an exact categorization of those work orders is difficult. Utilization is determined by lines of business, and not segregated by cost centers. This makes it difficult to compare work requests by the level of effort necessary for completion, and compare actual costs with revenue received.

While total workload is substantial, the agency is currently not operating all equipment at full capacity, and there is a significant underutilization of printing and photocopying equipment. Personnel utilization has been calculated based on available information, however, this is an ad hoc methodology and the information reported is difficult to interpret and use to manage operations. In some cases, personnel are used in support of O&M functions (such as Macintosh LAN support and archiving activities) that are not billable; therefore caution should be used if the utilization factor is being considered as a basis for making business decisions.

Along with utilization, job classifications were identified as needing review to provide for additional levels of skills and compensation to support a re-balance of staff positions to meet business needs.

Utilization rates for all lines of business were illustrated in a January report to Executive Finance Committee.⁵

3.9 Customer Service

In 2005, P&GA received a preliminary assessment and customer service feedback from a survey conducted by Griffin Hill Associates, as part of a Service Level Agreement project initiated by the Department of Executive Services. The information contained in the findings was used in the July 12th draft Business Plan to document customer concerns regarding ability, accuracy, and capability of P&GA staff. This report covered many deficiencies within the current operations of P&GA.

³ Supplemental Financial Plan, October 2006

⁴ Report to Executive Finance Committee, January 2006

⁵ Report to Executive Finance Committee, January 2006

In addition, this assessment highlighted dollars that were being spent on printing and graphic arts services outside of P&GA. To address this point, work was begun with King County procurement to create master contracts for all printing and graphic needs, to enable P&GA to provide service to agencies by administering these contracts in an efficient and competent manner, freeing up staff in other agencies (Appendix E, finding #7).

The information presented in the table below should be viewed as a preliminary assessment of potential revenue currently spent on outside vendors that could be captured from major customers of King County P&GA⁶ and does not include the potential value of redirecting work currently done by agency staff and local printers.

P&GA Revenue in Relation to Outside Vendor Expenditures

Agency	2005 P&GA Revenue	2005 Amount Spent Outside P&GA (53806)
DNRP	\$ 464,000	\$ 250,533
DOT	649,000	1,033,153
Sheriff's Office	43,000	119,498
E-911 Program	N/A	222,049
REALS	411,000	1,446,225
FBOD	78,000	378,022
Public Health	272,000	309,680
Other Agencies	1,503,584	417,514
TOTAL	\$2,264,584	\$4,216,207

In addition the potential revenue outlined above, there is also the potential of redirecting additional copying/printing to P&GA with a print assessment that was discussed as part of the NCOB planning. The purpose of the print assessment is to determine ways that the county can improve the efficiency and cost effectiveness of its environment, including network and direct-attached printers, walk-up copiers, multifunction devices (MFDs), and fax printing. The ultimate goals are to better align printing with business needs and reduce the cost of providing print services to the business areas.

⁶ Griffin, Hill Associates Summary Report, December 2005.

4 Options

Three options for the future of King County's Printing & Graphic Arts are outlined below.

4.1 Invest in P&GA

Strategy

A strategy for achieving financial P&GA solvency is based on creating a well-managed agency that can cost-effectively meet the current and future needs of its customers. In order to do this, it is necessary to invest in technology and personnel and aggressively market all services. Bringing in a turnaround manager/team to make the changes necessary to create a self-sustaining business is a critical success factor for this strategy, although putting a team together will take time, likely 6 months.

As part of building the business, P&GA could integrate its services into the functions of the new county office building. The county's occupancy of new facilities in the summer of 2007 provides a unique opportunity to design an integrated print management environment whereby departments and offices reduce their own large-scale printing environments and instead, utilize a centralized and efficient P&GA service bureau.

Investments will be necessary to successfully complete projects recommended to achieve a self-sustaining organization, which means there will be an increase in costs without a corresponding increase in revenue for a period of time. Replacing the manual work order and billing processes with a new business management system will improve P&GA management abilities which will lead to increased customer satisfaction, although recouping these benefits will take time.

Based on the findings and recommendations compiled in the July 12th draft Business Plan (Appendix E), 6 projects were identified as efficiency projects. A brief description of each project is provided below, along with the risk factors that were identified related to each project. A more detailed presentation can be found in the July 12th draft Business Plan.

- **Marketing Plan.** The marketing plan continues some of the initial activities in place to improve marketing of P&GA to existing and future customers. It should be noted that State Printer personnel meet with their customers on a biannual basis and conduct customer forums throughout the year to continue customer education and communicate services that could add benefit to their specific core business. Savings are recorded and presented to customers and tracked through the bidding process using a business management system. Decisions or agreements about direct marketing to new customers and communication of service offers to current customers will be finalized in the marketing plan.

Key risk factors:

- Revenue is less than projected
- Marketing objectives are misaligned with market need
- Lack of resources to successfully implement
- Lack of stakeholder buy-in
- Unforeseen development costs
- Limited access to customer base

- **Copy Rate Adjustment.** The anticipated outcome of this project would initially lower rates from 8 cents to 4 cents a side in an effort to increase business. A rate of 4 cents a side, including paper, would enable P&GA to become competitive with outside vendors and fall within a similar range with other governmental copy centers. A more thorough examination of all of P&GA's rates is proposed.

Key risk factors:

- Revenue is less than projected
- Price is lower than cost recovery
- Do not receive anticipated volume increases

- **Website Redesign and Implementation.** Efforts have been under way to redesign the existing intranet site, and create an internet presence. Elements of site include: (a) ability to submit online work requests; (b) online quote submission availability, print services, and business card requests; (c) updated FAQ; and (d) updated graphics, photography, and video pages.

Key risk factors:

- Revenue is less than projected
- Lack of resources to successfully implement
- Customers not accustomed to using online services
- Poor communication about new site
- Design flaws

- **New Staff Positions.** State Printer identified the need for additional resources to implement a modified operational flow from estimating to production. These resources include the following positions:

- *CSR Position* – Answer questions, take new orders, track job status, plan upcoming projects, and consult with customers
- *Print Broker Position* – Maintain master contracts for county use, manage all outsourced orders, and reconcile vendor billing
- *Project Support/Other* – Conduct billing/accounting oversight, facilitate new process support, and manage the business management system
- *Graphics Arts Position* – Assist internal and external customers with all aspects of graphics work and increase availability of graphic design resources

Key risk factors:

- Revenue projections are not met
- Do not receive necessary approvals
- Lack of resources

- **NCOB Planning.** The new county office building (NCOB) is scheduled to open in spring 2007, and space is being planned for a copy center within NCOB. The NCOB steering committee is also considering a print assessment that could redirect additional copying and printing to P&GA.

Key risk factors:

- Space not available for a copy center at NCOB
- Difficulties occur during transition
- Necessary equipment is more costly than anticipated
- Revenue is less than projected
- Print Assessment is not completed

- **Business Management System.** This project purchases and installs a new information system from the vendor supporting State Printer. It allows for increased management of all scheduled functions, reliable work order processing, visibility and cost accounting.

Key risk factors:

- New business management software does not perform as anticipated
- System does not adequately support key business processes
- Software requires unforeseen, costly business process reengineering
- Implementation takes longer than anticipated
- Training users requires more time and resources than anticipated
- Customers are not convinced the new system helps to resolve operational issues at P&GA

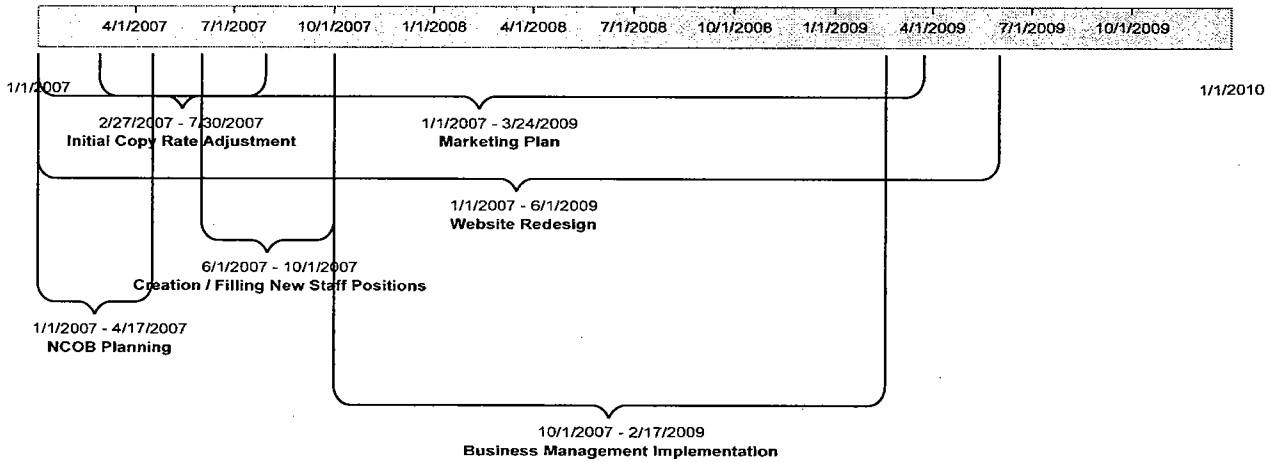
Over a four year period the incremental project costs and benefits are summarized below:

Project	Cost	Benefit	Net
Marketing Plan	92,446	57,000	(35,446)
Initial Copy Rate Adjustment	3,082	72,122	69,040
Website Redesign (and implementation)	52,885	125,758	72,873
Creation/Filling New staff positions	910,714	1,879,504	968,790
NCOB Planning	977,110	1,041,563	64,453
Business Management System Implementation)	134,921	645,500	510,579
Total	\$2,171,158	\$3,821,447	\$1,650,289

If these projects were approved for implementation, project costs would total **\$2,171,158**, including some new ongoing operational costs.

Financial projections were based on current salary and overhead figures, with project start dates of January 1, 2007 with work to complete all projects continuing through 2009.

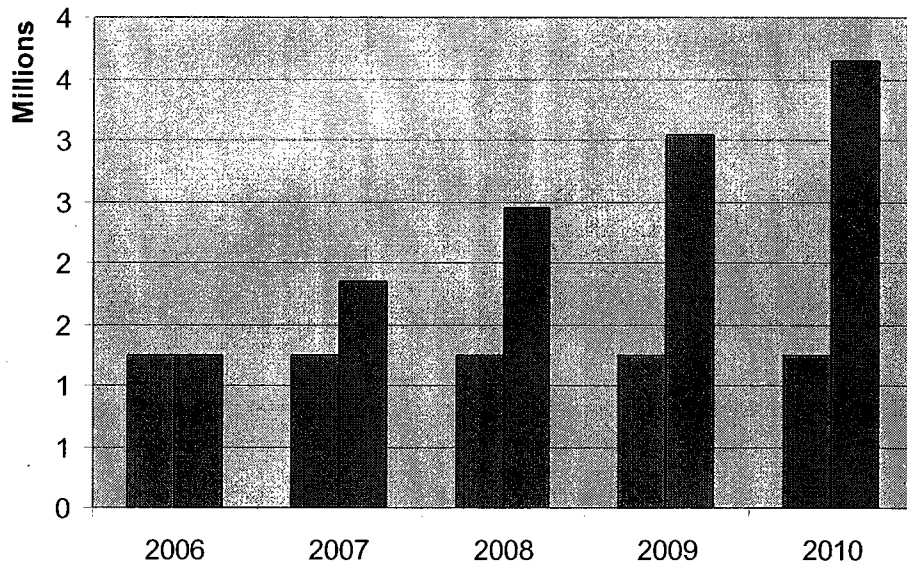
Project Timeline



The project costs reflect current salaries and benefits, and include a projected increase in copy/print volumes through 2010 (Figure 1). If P&GA were to reduce personnel costs to become more competitive in the marketplace, these projects would be more effective in restoring a positive fund balance.

Figure 1

Incremental Monthly Copy Volume Projections



	2006	2007	2008	2009	2010
■ base assumption	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000
■ base + incremental	1,250,000	1,850,000	2,450,000	3,050,000	3,650,000

The incremental financial impact of implementing these projects is presented in the table below, where a positive fund balance is restored by 2010.

Best Case Incremental Financial Impact

	2006	2007	2008	2009	2010
Revenue		279,874	661,604	1,161,184	1,1718,785
Expense		(724,285)	(351,089)	(544,574)	(551,210)
Net Income		(444,411)	310,515	616,610	1,167,575
Fund balance	(1,102,071) ⁷	(1,546,482)	(1,235,967)	(619,357)	548,218

Note: Figure 2 illustrates the best case scenario of the fiscal impact of implementing these projects, assuming no additional operating income (or loss) between 2007-2010.

⁷ Printing and Graphic Arts Projected Financial Performance 2006 Forecast with 8/31/06 Actuals

Challenges

The following are the challenges identified with investing in this option.

- **Time and Financing**

If the operations forecast (2006 Projected Financial Performance) is used to estimate the remaining 4 months of 2006 [averaging the first 8 months of actual], P&GA would end 2006 with a fund balance of negative \$1,102,071. This is from a starting position of negative \$597,711. The table in the previous section illustrates the impact of implementing the recommendations on fund balance, beginning in 2007 through 2010.

The current interfund loan, reflecting the extension granted in March 2006, has an upper limit set at \$862,000; however it is projected to be exceeded before the end of 2006.

- **Time and Financing**

It would be necessary to bring in a turnaround manager/team to make the changes described to create a self-sustaining business. Putting a team together will take time, likely 6 months.

- **Labor Relations**

In order to achieve market competitiveness and long term financial stability, we would need to negotiate lower hourly rates of pay and bargain new classifications to perform work currently performed by employees in higher-level job classifications. The collective bargaining agreements providing the wage levels for existing staff do not expire until 12/31/07, making significant changes unlikely through 2007.

- **External Market Conditions**

The county can only achieve market competitiveness if labor costs can be reduced (to be comparable with the State Printer, costs would need to decrease by about 50%). Production volumes would also need to increase significantly, in the estimation used in the financial projections; this would be tripling the copy center volume (Figure 1).

In addition to implementing these recommendations, we also need to develop the financial capacity to make investments in staff training and technology, to become and stay competitive with the external market.

- **Rates**

P&GA is not able to be competitive in its cost of services, and has not raised rates to cover costs. If higher rates had been implemented, it is questionable whether customers would continue to use P&GA if they were being charged the actual, higher cost. It is important to note that the State Printer has recommended lowering, not increasing rates, to attract higher volume of business.

Summary

In looking at the requirement of over \$2M to implement these projects, there are significant risks and challenges to achieve a stabilized operation and turn cash-flow positive in 2008.

Although the State Printer successfully turned their print operations around about nine years ago, it is clear that King County cannot achieve the same results by using the methods that proved successful to the state's turnaround, due to a variety of constraints and environmental factors.

- Technology has changed since the time the state implemented its turnaround and the cost of investing in the same type of technology has increased, and would include a significant amount of time, effort and dollars to implement.
- King County has a much smaller immediate volume/customer base, and currently doesn't have the ability to decrease its labor and overhead costs, which results in a cost of services that are not competitive in the current printing and graphics market.
- In addition to the above, implementing projects without a turnaround manager in place would not be advised, and it has been estimated that filling this position could take up to six months while the department would continue to lose money.

As a result of the challenges and risks described above, this option is not feasible.

4.2 Shutdown P&GA

Strategy

This option closes the entire P&GA services. After several months of gathering information for the business plan and uncovering additional findings, it has become apparent that turning around P&GA's operations would involve significant challenges and risks and would require a major investment of time and resources by the county.

The costs associated with employee vacation, sick leave, and retirement payout, early cancellation fees on leased equipment, and 18-month lease and brokerage fees at Graybar are factored in to the costs of a potential shut down.

This table combines the projected fund balance forecast with known closeout costs (one-time + sum of ongoing after closeout) to estimate fund balance as time elapses. For supporting details, see Appendix G.

	Est. through 12/31/06 ⁸	Discontinuing P&GA effective 3/31/07	Discontinuing P&GA effective 6/30/07
Net Income	(\$ 570,550)	(\$ 447,342)	(\$ 593,706)
Fund Balance	(\$1,102,071)	(\$ 2,007,222) ⁹	(\$ 2,163,584)

If P&GA were to ramp down until the end of June 2007, which would coincide with its budget, additional costs would be incurred and the county's negative fund balance position would increase. This is in addition to the monthly salary expense which is budgeted to be offset by P&GA revenue.

Assumptions

The following assumptions were used in reviewing the financial impact of closing the print shop.

- P&GA will be responsible for paying, upon shutdown:
 - Vacation leave balance payout for all employees
 - Sick leave for employees who have opted to retire
 - Unemployment for laid off employees
 - Retirement for employees eligible and selecting retirement
 - Tenant improvements at Graybar
 - Equipment lease early cancellation fees
- Ongoing expenses. In addition to the expenses related to employee, the following expenses will also continue to be the responsibility of the county:
 - Graybar lease (unless sub-leaser is obtained. Lease runs through 2008)

Challenges

- There has been no assessment or research regarding the effect on agencies' budgets if P&GA is shut down completely. Agencies may end up paying more or paying less for services previously provided by P&GA by using outside vendors or growing their internal resources.

⁸ Based on Prelim August PGA Performance Report 092506

⁹ PGA Projected Financial Performance 2006 thru 6/2007 Forecast

- It will be difficult to manage a smooth shut-down and provide county agencies with options to meet their future printing and graphic services needs.
- No ability to recover debt/financial loss.

Summary

Although the decision to shut down P&GA would stop the losses, it would not take into account the following concerns:

- Services previously provided by P&GA would need to be contracted out by each agency. This could affect their ability to complete their printing & graphics needs on time and within budget, while vendor searches and contract negotiations are being pursued. The county could have master contracts in place for county departments within a period of months.
- Nineteen staff, many who are highly specialized, would be unemployed. It is unknown if they could be re-employed elsewhere in the county based on their specific technical skills.
- There is no ability to repay the fund balance which at this time is estimated to become a loss of just over \$2 million after all estimated expenses are paid.

4.3 State Printer's Proposal

Background

The State Printer assisted King County in an effort to develop a comprehensive business strategy for Printing & Graphic Arts by completing a preliminary assessment and evaluation of current business practices. The purpose of the assessment was to compile results of previous planning efforts and a review of P&GA operations. As the county moved forward with creating a July 12th draft Business Plan based on these findings and recommendations, an option to work with the state was added to the scope of the plan.

Options presented to the State Department of Printing for their consideration:

- State Printer assumes the printing, binding, and copy operations, preferably utilizing all ten staff
- Same functions as above, but includes graphics, video, photo & administrative staff
- State Printer assumes management of the King County Print Shop and then at a future point return operations to King County

Proposal

In response to the options presented by the county, the State Printer has proposed reviewing the possibility of assuming part or all of the management of the print shop. However, due to the limited information available, a 90-day "due diligence" period was agreed to, with a target date of January 31, 2007 for the go/no-go decision following the due diligence work.

Challenges

This option has unique challenges since it might result in transitioning some or all parts of the print shop operations to the State Printer.

- **Labor negotiations.** Depending upon the parts of operations assumed by the State Printer, county's employees could have an opportunity to become State employees at reduced salary, rather than being laid off. Union support of this proposal is essential to a successful transition.
- **Debt repayment.** It is possible that the county could place a surcharge on all county printing orders processed by the State Printer to allow the county to recover losses from P&GA.
- **Enforcement of the Executive Order.** In 2001, the King County Executive issued an order mandating that Executive branch agencies utilize P&GA's services. The intention was to direct work to P&GA and, through economies of scale, to allow agencies to obtain an anticipated cost savings. While P&GA's volume increased, a substantial amount of work was still being outsourced due to market pressures. The executive order was not systematically enforced and agencies continued to use outside vendors or internal resources to fulfill their printing and graphic needs. We may have similar challenges or new challenges in enforcing the Executive Order in conjunction with the State Printer taking on the print shop.

5 Recommendation

Summary

The strongest option presented in this plan lies with the State Printer taking on some or all current P&GA functions.

It is important to be realistic about the current environment and the inability to revitalize P&GA without a large investment of time and dollars, as documented in section 4.1. Achieving a stabilized operation and becoming cash-flow positive by 2008 (Option 1) is calculated acknowledging many risks and challenges. The State Printer has a foundation built on their experience with turning around a printing operation and its experienced management team would not face the same risks and challenges and would not need to make the same level of investment

Shutting down P&GA operations (Option 2) would stop the losses, but without the possibility of repaying the debt. The State Printer's proposal allows for the possibility of recovering the debt.

A quick analysis of the data available to the State Printer indicated that it would be financially impossible at the county's current cost levels to stay in business; however they noted that many of the assumptions must be validated. The proposal realistically describes the need for a "due diligence" period estimated to span 90 days with a final go/no-go decision by January 31, 2007. As part of this due diligence, the State Printer would work with county staff and management to understand the county's existing services and determine feasibility of taking on some or all current functions..

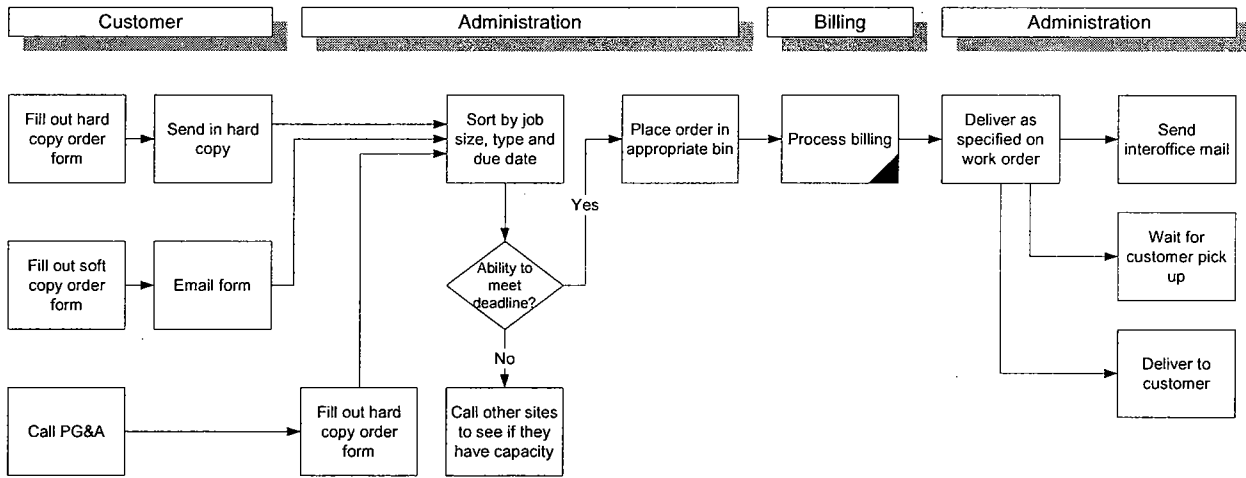
Appendix A – Project Bibliography

- King County Graphics Design and Production Services Business Plan, October 1999
- ITS Printing and Graphics Arts Billing Process Report, Spring 2001
- Washington State Department of Printing, Fiscal Year 2005–2007 Business Plan (Updated May 2004), 5/04
- Griffin, Hill & Associates, LLC, “Summary Report,” December 2005
- King County Office of Information Resource Management, David Martinez Letter to Executive Finance Committee, January 2006
- January 2006 Report to Executive Finance Committee
- Washington State Department of Printing, Notes: Assessment of Printing and Graphics, 4/26/06
- 7/28 Executive Finance Committee report, with actuals updated through June 2006
- Printing and Graphics Business Management System (Avanti) Business Case, June 2006
- Printing and Graphic Arts Projected Financial Performance 2006 Forecast with 8/31/06 Actual
- Supplemental Financial Plan, October 2006
- Preliminary August PGA Performance Report, Sept 2006
- PGA Projected Financial Performance 2006 thru 6/2007 Forecast

Appendix B – Business Process Diagram

KING COUNTY OFFICE OF INFORMATION RESOURCE MANAGEMENT
 PRINTING AND GRAPHIC ARTS BUSINESS PLAN
 DRAFT ASSESSMENT
BUSINESS PROCESS DIAGRAM

EXHIBIT I

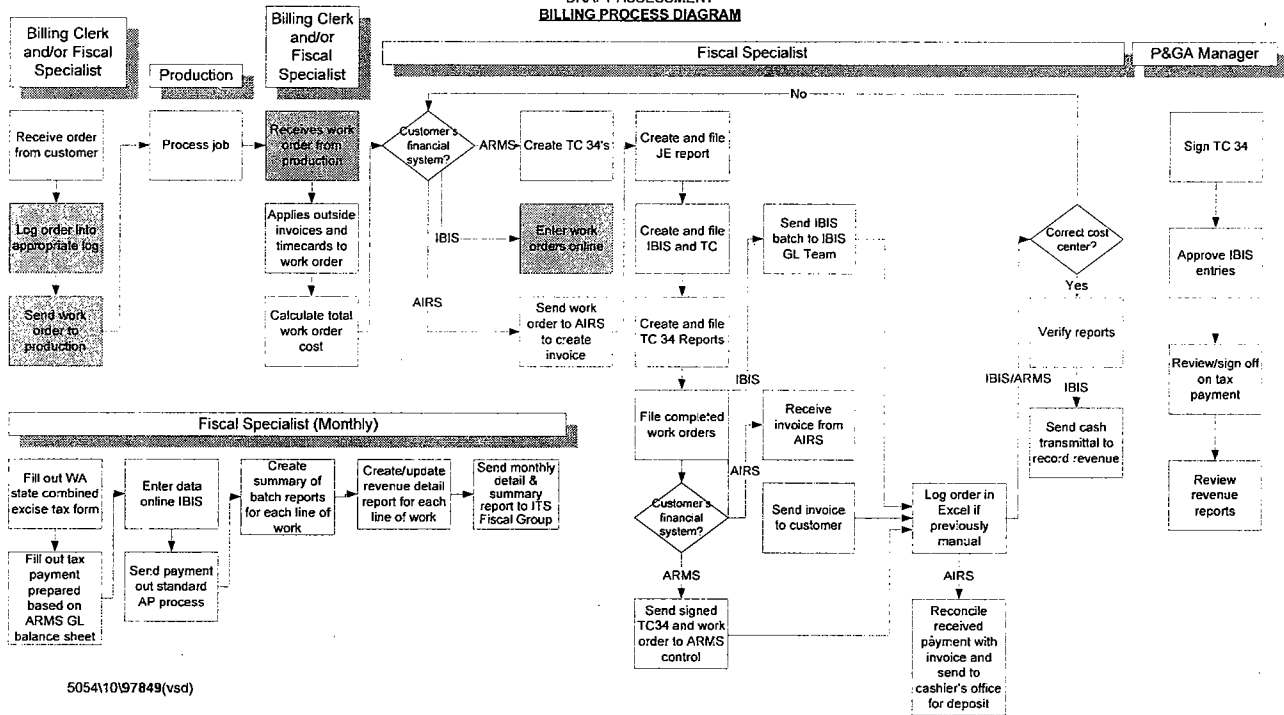


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Appendix C – Billing Process Diagram

KING COUNTY OFFICE OF INFORMATION RESOURCE MANAGEMENT
 PRINTING AND GRAPHIC ARTS BUSINESS PLAN
 DRAFT ASSESSMENT
BILLING PROCESS DIAGRAM

EXHIBIT II



Appendix D – Projected Financial Plan

2006 Proposed Financial Plan

ITS Printing and Graphic Arts / Fund 5600

	2004 Actual ¹	2005 Actual ²	2006 Adopted	2006 Estimate - Base Case revised with YTD Aug Actuals ³	2007 Proposed ⁴
Beginning Fund Balance	289,289	(343,747)	(343,747)	(531,521)	(1,150,949)
Revenues					
* Charges for Services to County Agencies	2,769,784	3,266,465	3,193,459	3,610,758	1,805,379
* Revenue from SMT copy center		175,119	288,702	116,684	
Total Revenues	2,769,784	3,441,584	3,482,161	3,727,443	1,805,379
Expenditures					
* Operating Expenditures	(3,402,820)	(3,594,358)	(3,384,871)	(3,384,871)	(2,077,206)
* Equipment Replacement		(35,000)			
* 2006 Supplemental				(962,000)	
Total Expenditures	(3,402,820)	(3,629,358)	(3,384,871)	(4,346,871)	(2,077,206)
Estimated Underexpenditures ⁶			67,697		
Other Fund Transactions					
*					
Total Other Fund Transactions	0	0	0		
Ending Fund Balance	(343,747)	(531,521)	(178,760)	(1,150,949)	(1,422,776)
Reserves & Designations					
*					
Total Reserves & Designations	(13,441)	0	0	0	
Ending Undesignated Fund Balance	(357,188)	(531,521)	(178,760)	(1,150,949)	(1,422,776)
Target Fund Balance ⁵	170,141	181,468	169,244	217,344	103,860
Net Operating result	(633,036)	(187,774)	97,290	(619,428)	(271,827)

Financial Plan Notes:

¹ 2004 Actuals are from the 2004 CAFR.

² 2005 Actual is based on the 2005 CAFR.

³ Revenues and expenditure were projected based on YTD Aug actual.

⁴ 2007 projected expenditure was based on 1/2 year appropriation needed in 2006 excluding SMT; 2007 estimated revenue was based on 1/2 year of 2006 estimated revenue, excluding SMT.

⁵ Target fund balance is based on 5% of operating expenditure.

⁶ Expected underexpenditure is based on 2% of the revised operating expenditure.

Appendix E – Current Environment Assessment

This section of the business plan presents findings, recommendations, and each recommendation's associated status.

Findings and Recommendations

Findings and recommendations were developed as part of the assessment conducted through a series of meetings with State Printer as well as internal analysis. Changes have been made since the July 12th draft Business Plan to consolidate the findings and recommendations and reflect additional research and work accomplished since the original findings were recorded.

#	Finding	Recommendation	Status as of August 31, 2006
1	<p>Insufficient analysis and planning was conducted concerning the decision to take over the SMT copy center from the City of Seattle.</p> <p>P&GA was approached by the City of Seattle in 2004 to take over its operations at SMT. The presentation from the city suggested that this was a "turnkey" operation with a built-in customer base. Insufficient analysis was conducted to determine that King County could successfully operate this copy center as a self-sustaining operation.</p> <p>In addition to the lack of analysis, the transition planning and execution was insufficient, resulting in loss of revenue to the county for this copy center. The transition includes the City of Seattle stopping copying services in September 2004; however, access was not granted to P&GA until April 2005. This delay forced city employees to contract out the services previously provided by the SMT copy center. In addition, the equipment lease that was signed along with the space lease was in excess of what was needed to successfully run the copy center.</p>	<p>Shut down SMT copy center operation.</p> <p>After reviewing the costs associated with running the SMT copy center and the lack of volume being generated at SMT, the recommendation is to shut to down SMT copy center.</p>	<p>Closed.</p> <p>The SMT copy center was shutdown August 11, 2006.</p>
2	<p>Copy rates are too high.</p> <p>For most lines of business, P&GA rates are competitive with the private sector; however, rates for photocopying are higher. Since copying requires high volumes to generate a profit, lower rates typically attract high-volume clients. For example, Kinko's charges 8 cents per side but decreases the rate by .05 cents every 300 copies up to 20,000 copies (for which it charges 3.5 cents per side). Other government print shops operate with a similar volume discount model.</p>	<p>Lower the copy rates. If P&GA wishes to attract local government traffic through an interagency agreement with Washington State, P&GA needs to lower its copy rate and implement volume discounts. This rate would be attractive to other customers and would increase the customer base.</p> <p>To accommodate the price reduction without additional loss to the copy centers, the costs of running the copy centers would need to be significantly reduced and the volume of copying jobs would need to be increased.</p>	<p>Under consideration</p> <p>This proposal is under consideration. Right sizing of equipment and employee reclassification would be required (see Finding #4)</p>

#	Finding	Recommendation	Status as of August 31, 2006
3	<p>P&GA lacks marketing.</p> <p>The Griffin Hill Associate's study found that customer's lack knowledge of the services offered by P&GA. Given limited resources, additional marketing and customer education efforts have not received high priority.</p> <p>P&GA customers have expressed interest in placing printing/graphics orders via the Web. This is a commonplace occurrence in the private printing industry but cannot be incorporated into the county's printing and graphics practices until an updated Internet site is established.</p>	<p>Develop a marketing plan.</p> <p>A marketing plan needs to be developed that includes customer visits, ideas on informing new and established customers on the services available, as well as finishing the development and communication plan of an interactive Web site that advertises P&GA's services.</p>	<p>In process</p> <p>P&GA's released an updated website in August. The new website is easier to navigate, improves communication to customers on print shop offerings and allows customers to place their orders on-line and request bids.</p> <p>A marketing plan will contain detailed marketing tasks, customer communication plan, and additional web site improvements.</p>
4	<p>Job classification specifications are outdated and the county's process of moving career service employees through established pay ranges has resulted in higher labor costs and reduces market-competitiveness.</p> <p>Existing position classification specifications do not adequately reflect work performed in all cases. Many functions could be performed by positions classified with lower salary ranges to match skill sets and job duties with compensation levels.</p> <p>During State Printer's review of county print operations, it was noted that King County will spend over \$30,000 a month on print/copy center salaries and equipment to yield an average of 1.25 million impressions, and State Printer will spend \$3,000 for the same number of impressions. On a monthly average, the county generates 1.25 million impressions, and the state generates 7.00 million. The county's overhead rate makes it crucial that highly paid specialists work efficiently within their classification and those volumes through P&GA are significantly increased to fully utilize the staff and equipment capacity available.</p> <p>Many staff members have been with P&GA for a considerable amount of time (20-plus years). In contrast to private sector printing, the county assigns a pay scale with a minimum and a maximum, and with time, employees move through the pay ranges regardless of the financial health of the business. The result is that the county pays long term staff at the top of the scale. This becomes an inherent difference between private sector and county costs.</p>	<p>Update job classification specifications to accurately reflect the body of work and assign staff according to duties within their job classification. Implement technical solutions to reduce redundant manual tasks.</p> <p>Work with applicable unions to redesign functional job descriptions and develop performance expectations. This will help clarify assignments within a classification to enable management to plan workloads.</p> <p>Certain P&GA staff performs tasks not within their classification that actually fall within the scope of administrative job classifications. Administrative functions can be streamlined or reassigned to other staff in an appropriate classification which would reduce costs.</p> <p>Implementing a business management system and hiring supporting staff will enable P&GA to develop a process to assign the highest-level tasks to staff making the highest level of salary by reducing redundant tasks and administrative functions as well as streamlining tasks with technology.</p>	<p>In process</p> <p>The county has a 3-year cycle of updating classification specifications, and the review of these positions is overdue.</p> <p>To help implement this recommendation, a market salary study should be conducted. This study would provide a current view of comparable personnel salaries.</p>

#	Finding	Recommendation	Status as of August 31, 2006
5	<p>Staff utilization is not managed efficiently.</p> <p>According to FY 2005 financial data, graphic, photography, and video services are the primary business lines that are losing money. Graphics accounts for 50 percent of the \$184,774 loss, while photography and video services account for the remaining 50 percent (37 percent and 13 percent, respectively).</p> <p>Given the utilization rates of photography (52 percent), video services (69 percent), and graphic arts (89 percent), there is potential to increase the volume of work in photography and video services.</p> <p>A risk in increasing volumes is a lack of cross training. In video services and photography, there is only one person assigned in each of these lines of business, there is no backup if these individuals are ill or otherwise out of the office. Non-billable time should also be considered before utilization rates are expected to reach 100 percent. In the first 6 months of 2006, 65 non-billable hours were attributed to Macintosh-related services from the photography department. This support is not offered through central LAN support.</p> <p>Bottlenecks typically occur with cutting, folding, and binding documents, which cause delays and missed deadlines. Currently, two staff members are cutting and binding documents and additional staffing is needed.</p>	<p>Rebalance staffing and cross train as needed.</p> <p>By rebalancing staffing at the satellite copy centers to one person, P&GA would decrease costs and increase personnel available to take care of other work orders. This recommendation was utilized by the state and resulted in cost savings.</p> <p>Combining photography and video services would increase organizational efficiency by increasing trained staff to assist during times of heavy volume and to cover for one another when they are out of the office.</p> <p>P&GA is improperly staffed to manage its bindery services workload. By increasing personnel in this area, P&GA will be able to cut, bind, and fold documents at a faster rate, thereby increasing organizational efficiency and reducing order delays.</p>	<p>In process</p> <p>Job classifications will need to be reviewed. If a new classification is needed, implementing this recommendation will take longer.</p> <p>Two staff members have been reassigned from the copy centers to the main print shop to increase bindery staffing.</p>
6	<p>P&GA customers have reported mixed results regarding the quality, ability, and timeliness of the services provided.</p> <p>Key issues include the following:¹⁰</p> <ul style="list-style-type: none"> ● <i>Ability</i> – The survey results showed that a concern exists that some graphics personnel are not technologically savvy and are lacking in skills. ● <i>Accuracy</i> – Respondents expressed concern that cost estimates vary greatly from actual project cost. ● <i>Capability</i> – Results indicated that there was an inability to produce specialized products, including election ballots and 12-panel bus schedules. ● <i>Contract</i> – Existing vendor contracts prevent agencies from using P&GA services. 	<p>Provide better customer service.</p> <p>Due to the extensive changes required in overall management and operations of P&GA, a seasoned manager with experience in turning around troubled operations should be considered.</p>	<p>Under Consideration</p>

¹⁰ GHA Summary Report, December 2005.

#	Finding	Recommendation	Status as of August 31, 2006
	<ul style="list-style-type: none"> ● <i>Copyrighted Material</i> – Agencies require specific vendors for copyrighted material. ● <i>Timeliness</i> – Respondents expressed concern that cost estimates are not timely. ● <i>Uninformed</i> – Survey results indicated that the customers lack knowledge regarding the services that P&GA provides. <p>The cumulative affect of the above issues reflects a sizeable challenge for P&GA management. Turning around this operation from its current state will require significant commitment from the county to provide appropriate levels of management and leadership.</p>		
7	<p>Though a mandate was given by the Executive, some outsourcing of printing is being done directly by agencies through procurement rather than being funneled through the print shop.</p> <p>In 2001, the King County Executive issued an order mandating that King County agencies utilize P&GA's services. The intention was to divert work back to P&GA and to allow agencies to obtain an anticipated cost savings. The executive order was not enforced by management, therefore agencies continued to use outside vendors to fulfill their printing and graphic needs.</p>	<p>Coordinator Vendor Contracts. The State Printer has recommended that the county's printing and graphic arts contracts be managed by P&GA. This would enable P&GA to provide service to agencies by administering these contracts in an efficient and competent manner, freeing up staff in other agencies. The State Printer also noted that half of their revenue is generated in this capacity with the state (using a five percent surcharge).</p> <p>The State Printer recommended creating a print broker position that can negotiate with vendors and manage services and products that meet client needs. This position would be knowledgeable about outside vendor products and services and standard procurement procedures, maintain preexisting agreements and develop relationships with vendors, and administer work requests that are beyond the scope of P&GA.</p>	<p>In process. King County is in the process of creating master contracts, which will ease the process of procuring overall printing and graphics services. In a meeting with the director of finance and the manager of procurement, it was agreed that P&GA should become the sole print broker for county print procurement operations.</p>

#	Finding	Recommendation	Status as of August 31, 2006
8	<p>The copying software in the three offices is not uniform.</p> <p>The copying software, the age of equipment, and equipment setup varies between the three locations, causing training and production delays. Currently, the digital copiers are networked into each copy location, but additional uniformity and updating are necessary.</p>	<p>Equip all locations/copy center(s) with the same and setup.</p> <p>Copier equipment is leased from a vendor, and a revision to the current copier lease can ensure the same software is on all equipment.</p>	<p>Completed</p> <p>With the shutdown of SMT, there are now only two locations and the software has been updated and is similar in both locations.</p>
9	<p>P&GA operates separate financial systems and manual work order tracking processes.</p> <p>Recently, P&GA migrated to the county's Oracle financial management system, which provides better financial accounting, and a transactional record of the agency's accounts. Conversely, most P&GA clients still use the county's ARMS system, creating two different financial management processes within the county. Having two systems requires P&GA to reconcile its records for reporting purposes, creating a manually intensive process. In addition, financial records are not kept according to the line of business; therefore, accounts are vague and lack transparency.</p> <p>In addition to meeting reporting requirements, the current financial management system is cash-based, which creates a distorted picture of the agency's cash flow and financial position. The current process generates a job ticket when the job has been completed. Since the agency has already incurred expenses associated with that job but has yet to be reimbursed, it appears on the balance sheet that the agency is losing money.</p> <p>However, once the job is completed and the work order is processed, there is a spike in revenue. This inaccurately reflects the financial health of the agency at any given time and creates a management challenge.</p>	<p>Purchase a business management system and create separate costs centers for each line of business and location.</p> <p>Implementing separate cost centers for each line of business, along with the new business management system, will enhance visibility of expenses, thereby allowing management to better analyze operations, staffing, and equipment loads.</p> <p>The State Printer recommended purchasing a business management system, which is software that helps to manage work orders and track associated revenue and expenses. By purchasing the Avanti product (the system used by the State Printer), P&GA will be able to manage its print facility more effectively, which will lead to greater visibility per line of business. Avanti will also alleviate the need to manually pull information for reporting requests and create a more streamlined and accurate business process.</p>	<p>In process</p> <p>Separate costs centers for each line of business has been recommended.</p> <p>A business case has been developed that shows how the Avanti printing and graphics business management system will automate the job accounting information necessary to manage the job work flow and cash management for King County P&GA.¹¹</p> <p>P&GA recently acquired a sole-source waiver from King County Finance in order to purchase the Avanti system. This will be instrumental in assisting with the timely procurement of the system.</p>

¹¹ Business Management System (Avanti) Business Case, June 2006.

#	Finding	Recommendation	Status as of August 31, 2006
10	<p>The business may change to accommodate the new county office building (NCOB).</p> <p>King County is constructing a new building to be completed in spring 2007. A NCOB committee is currently deciding where the copy center should be located in this building. As part of this decision, an assessment may be conducted to determine equipment needs and the best way to manage the county's overall printing and copying needs. The NCOB plans include a copy center and the possibility of streamlining other county print functions throughout the building.</p>	<p><i>Use the NCOB as the pilot for streamlining county print activities.</i></p> <p>The State Printer has incorporated a print assessment line of business into its operations, and has recognized the long-term value of print management as a business model that will be viable for many of its state and local government customers. The purpose of the program is to assist organizations with managing office printing costs, which tend to be a significant percentage of budgets but are relatively difficult to identify and control.</p>	<p><i>Under consideration and planning for the long term</i></p> <p>P&GA will evaluate the long-term potential for incorporating this type of service offering but for the current environment will look at the costs and benefits of getting a print management assessment to ease the transition from decentralized printing to centralized printing in the NCOB. If this moves forward, a scope of work will be developed and submitted to the State Printer's vendor pool to begin the process of obtaining a print assessment.</p>
11	<p>The opportunity exists for P&GA to develop unique niche services not provided by other departments.</p> <p>A significant percentage of the jobs requested by customers entail multiple data sources that need to be merged to create individualized materials. Termed variable-data printing, this printing requires sophisticated equipment and is a digital printing process that creates customized forms, such as statements, invoices, custom letters, and targeted marketing materials.</p>	<p><i>Develop a niche market in variable printing.</i></p> <p>This recommendation has been very successful for the State Printer and could be applicable to P&GA, though it can be very expensive and will require long-term commitment by the county.</p>	<p><i>Under consideration for the long term.</i></p>

Appendix F – Executive Order

**King County
Administrative Policies and Procedures
Executive Orders, Policies and Procedures**

Title: Delegating Centralized Graphics/Printing Services Authority

Document Code No.: ACO 8-16(AEO)

Department/Issuing Agency: Office of the King County Executive

Effective Date: December 22, 2001

Approved: /s/ Ron Sims

Type of Action: New

This order delegates to the County Administrative Officer of the Department of Executive Services the authority to coordinate and provide centralized graphics/printing services for all County agencies.

WHEREAS, the County endeavors to provide maximum services in the most economical manner possible, and

WHEREAS, previous County studies have indicated that a centralized graphics/printing operation should produce a significant cost reduction, and

WHEREAS, the Department of Executive Services (DES) has the capability, personnel and equipment to meet a majority of the printing needs of County agencies;

NOW, THEREFORE, I, Ron Sims, King County Executive do hereby delegate to the County Administrative Officer the authority to coordinate and provide centralized printing services through the Department of Executive Services as follows:

1. All departments, divisions, agencies, and programs within County government are hereby directed to submit print and graphic projects to and utilize DES' centralized graphics/printing services.
2. Information and procedures to facilitate centralized graphics/printing services will be made available through the following:
 - a. Graphics/Printing Procedures which will outline the guidelines, timelines and process to be followed to submit all graphics/printing requests to the Graphics/Printshop;
 - b. The Graphics/Printshop will estimate costs from the Printing Requisition/Authorization, submitted by the requestor, and, when within their capability, will complete the printing request;
 - c. The Graphics/Printshop will make appropriate determinations regarding specific projects and, if necessary, submit the project for processing through the regular competitive bid process and/or appropriate procurement process.

Dated this 12 day of December, 2001.

/s/ Ron Sims, King County Executive

ATTEST:

/s/ Bob Roegner, Manager

King County Records, Elections, and Licensing

Updated: January 2, 2002

Appendix G – Summary of Shutdown Costs

The following costs support the calculations of a shut-down of P&GA. In the event of a shutdown, it is assumed that the county will provide 90-day notifications to employees.

2006 Ongoing Expenses Until Closeout*		2007 Ongoing Expenses Until Closeout*	
	Monthly		Monthly
Graybar Lease	9,821	Graybar Lease	9,821
Salaries	116,722	Salaries	120,644
Leased Equipment (est)	26,000	Leased Equipment (est)	26,000
	<u>\$152,543</u>		<u>\$156,465</u>
Closeout Costs as of 12/31/06		Closeout Costs as of 3/31/07	
Vacation Pay	161,784	Vacation Pay	194,623
Sick Leave Pay	28,567	Sick Leave Pay	31,593
Equip Lease early cancellation fee***	78,000	Equip Lease early cancellation fee***	78,000
	<u>\$268,351</u>		<u>\$304,216</u>
Ongoing Costs after Closeout*		Ongoing Costs after Closeout*	
Graybar Lease (18 months)	176,773	Graybar Lease (18 months)	176,773
Unemployment	233,189	Unemployment	233,189 ¹²
Retirement	79,789	Retirement	79,789
	<u>\$467,808</u>		<u>\$467,808</u>

¹² 2007 rate not calculated