

Pacific Northwest Intergovernmental Audit Forum

Privatization

Liquor Sales and Printing Services as Case Studies

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Privatizing Government Services

- With intense pressures to reduce costs come renewed calls to privatize government services.
- Auditors bring a uniquely independent view on this classic debate – and a reality check on the claims of saving money.
 - The role, or “core functions” of government.
 - The potential risks that come with privatization – including a longer-term view of the effects.
 - The costs and other impacts of implementing a transfer of responsibility to private providers.
 - The relative value of various alternatives.
 - The evidence that similar efforts have produced positive outcomes.
 - The question behind the question: WHY do you want to privatize this service?

State Auditor's Government Reform Agenda

In 2009, we launched a performance review focusing on specific reform options for state government.

We asked these questions:

- Is the program a core government function? If not, could it be scaled back, eliminated, or transferred to the private sector?
- Would the reform benefit the broad public interest rather than narrow special interests?
- Could costs be reduced or revenue increased?
- Could program effectiveness or customer service be improved?
- Has the idea produced positive results elsewhere?

Liquor Sales and Distribution: A Core Function

- The Legislature created the Washington State Liquor Control Board (WSLCB) when Prohibition ended in the early 1930s.
- In the words of former state House Speaker Charles Hodde, legislators and many citizens felt state control was the best way to eliminate “bootleggers” and prevent a return to the old West “saloon era.”
- Nearly 80 years later, Washington is only one of 18 states that maintains monopoly control – and one of only eight that employs the liquor store employees.

Liquor Sales and Distribution: Our Analysis

Getting out of the liquor business:

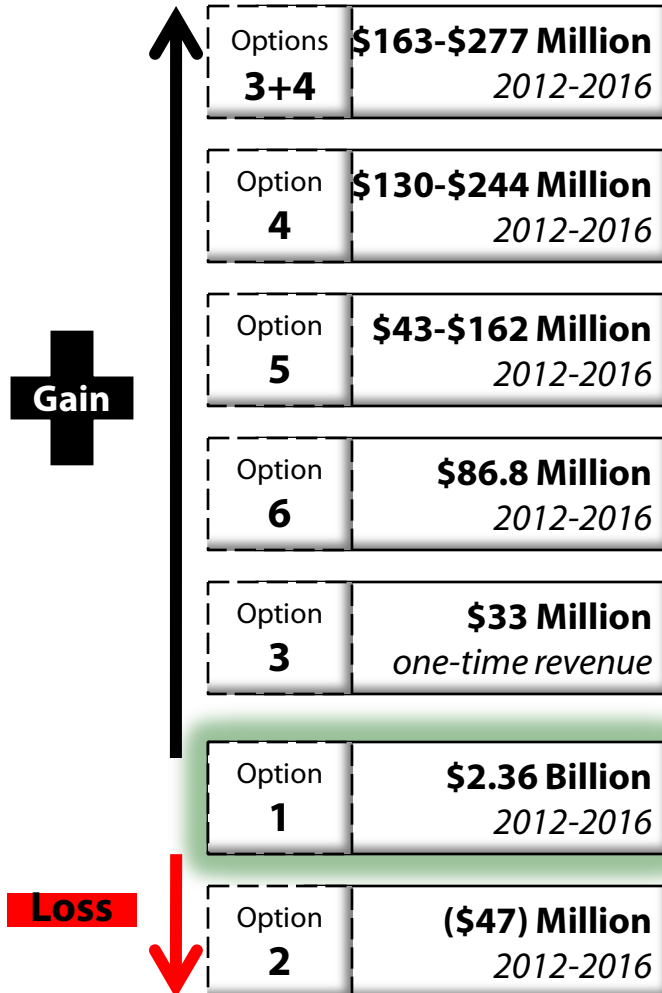
- We evaluated six options, ranging from continuing the status quo to contracting out to fully privatizing all sales and distribution.
- We found that revenue would be maximized (\$277 million) by selling state distribution center and auctioning licenses to sell liquor to private firms.
- We consider enforcement and education services to be core state functions and would preserve them within the Liquor Control Board.
- We did not find convincing evidence to substantiate or calculate potential social impacts of these options.

Options Analysis for Liquor Sales & Distribution

Options

1	Preserve current system (baseline)
2	Convert all state-owned stores to contract stores
3	Privatize distribution center in Seattle
4	Privatize retail stores and increase the number of stores
5	Privatize retail sector – allow market factors to determine number of retail outlets
6	Privatize liquor distribution and sales; tax spirits at a flat rate

Potential Revenue Effects



A Few More Points from our Liquor Analysis

- **Social effects.** We did not attempt to quantify possible social impacts of the various options. However, 10-year data from the National Institutes of Health shows average per capita alcohol consumption is about 13 ounces per year higher in “license” states than in “control” states.
- **Labor issues.** Many of the state employees whose jobs would be affected by these options are represented by unions and covered by existing bargaining agreements.
- **Unemployment costs.** We accounted for the cost of unemployment benefits for workers whose positions were eliminated if operations were changed in our model.
- **Enforcement costs.** We did not estimate financial impacts on enforcement of the various options. However, since beer and wine sellers are already monitored by the WSLCB, we do not expect the total number of outlets that sell some form of alcoholic beverages to increase significantly.
- **Flexible financial model.** We made our financial analysis model available, so decision-makers could experiment with various assumptions.

2010 Performance Audit

Printing then and now...

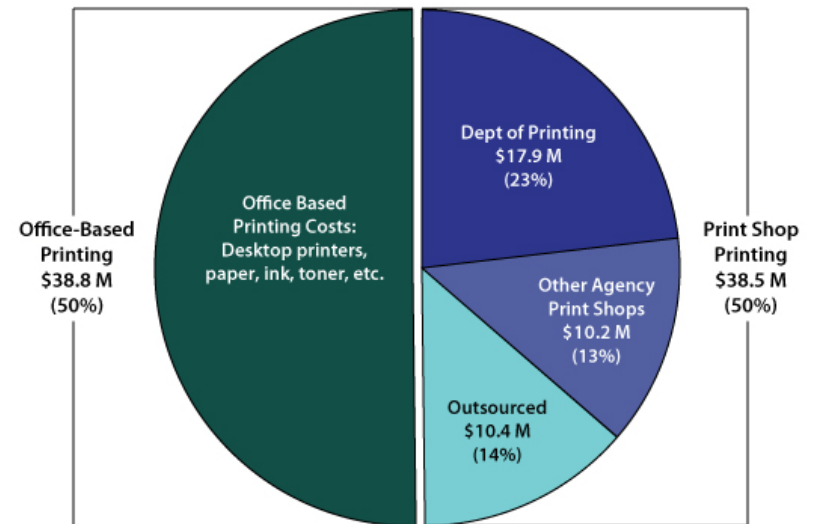
- Established in 1854.
- Originally contracted out to private printers.
- Right of first refusal.
- Technological advances.
- 10 state agencies with in-house print shops.

Audit Objectives

Can changes be made to the Department of Printing's current business model that would lower printing costs and/or improve printing services to the state?

Can statewide printing costs be reduced through the use of new technologies, consolidation, contracting with private printers, or by using leading practices from the printing industry?

Summary of Printing Expenditures
Fiscal Year 2010
Total = \$77.3 Million



Source: Individual agencies.

Notes: \$9.6 million of "outsourced" is done by the Department of Printing.
Higher education accounts for \$30.7 million of office based printing costs.

Private Sector Comparison

Other state practices:

- States have varying models:
 - Nevada — No price cap, open to competition.
 - Colorado — Benchmark against private sector and report to Legislature.

Private Sector Comparison:

Thurston County:

- Lowest price on five to seven jobs.

National comparison:

- Above median on two jobs, below median on one job.

Actual job comparison (17 jobs):

- Lowest price on eight jobs.
- More than 5 percent above lowest price on eight jobs.

Public-private price comparison (Department of Printing price highlighted in boldface type)						
Product	Lowest Price					Highest Price
Newsletter	\$2,789	\$3,325	\$3,368	\$4,000	\$4,826	\$6,091
Self-mailer	\$1,359	\$1,985	\$2,047	\$2,214	\$2,754	\$3,329
Binder	\$1,913	\$2,077	\$2,977			\$3,307
Letterhead	\$449	\$610	\$669	\$918		\$1,265
Poster	\$418	\$667	\$837			\$1,175
Book	\$76	\$79	\$189			\$298
Envelope	\$35	\$77	\$133	\$177		\$179

Recommendation:

Open state printing services to competition and allow private printers and the Department to compete for all jobs.

Duplication of Services

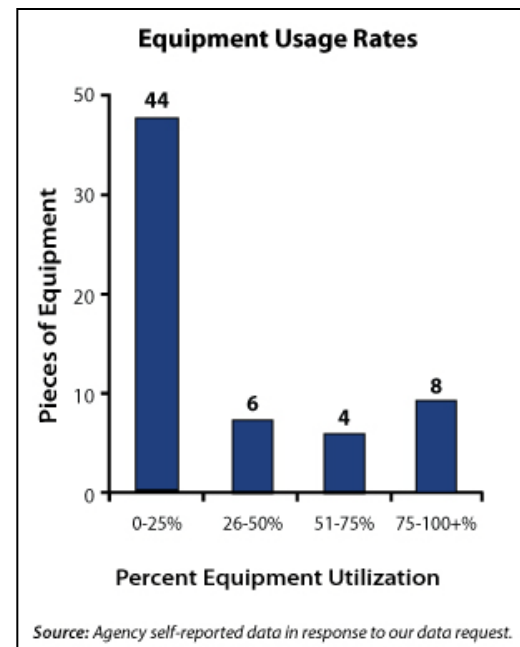
Agencies with print shops:

- Statutory questions
- Advantages vs. costs

Availability of Printing Services										
Services										
Addressing/ mailing/ fulfillment	✓		✓	✓	✓	✓		✓	✓	
Batch printing	✓	✓	✓	✓			✓		✓	✓
Copying	✓	✓	✓	✓	✓	✓		✓		
Correction/file repair/ copy prep	✓	✓	✓	✓	✓	✓		✓		
Digital printing	✓	✓	✓	✓	✓	✓		✓	✓	
Finishing/ binding	✓	✓	✓	✓	✓	✓	✓	✓		
Graphic design/ layout	✓	✓	✓	✓		✓	✓			
Large format work	✓	✓	✓	✓	✓	✓	✓			
Offset printing	✓		✓			✓	✓			
Process printing	✓						✓			
Scanning	✓	✓	✓	✓	✓	✓		✓		
Variable data printing	✓	✓		✓	✓				✓	✓
Web printing	✓			✓					✓	

Under-used equipment

- 80 percent used at less than 50 percent capacity
- Usage rates ranged from .5 percent – 121 percent of capacity



Recommendation: Consolidate agency print shops to reduce the duplication of services and to streamline the coordination and management of printing services.

Office-Based Printing Costs

Office-based printing:

- 50 percent of statewide spending is on office-based printing.
 - Desktop printings
 - Ink/toner
 - Paper
- Printer-to-FTE ratio

Other state's practices:

- Technology advances
 - Debit cards
 - Electronic transfers
- Managed Print
 - Only three state agencies use managed print.

State Printing Expenses in Fiscal Year 2010 (Dollars in millions)			
Printing Services	Full-time positions (FTE)	Expenses	Percent of total printing costs
Department of Printing	97	\$17.9	23%
Agency print shops (production printing)	59	\$10.2	13%
Private printers (outsourced production printing)		\$10.4	14%
Office-based printing * (primarily equipment and supplies)		\$38.8	50%
Total	156	\$77.3	100%

Recommendation: Adopt statewide cost containment strategies and require agencies to incorporate managed print.

Estimated Potential Savings

Summary of Potential Cost Savings after Full Implementation

Savings Opportunity	Low Range Annual Savings	High Range Annual Savings
Increase competition	(\$120,000)	\$1.1 million
Consolidate print shops	\$1.8 million	\$1.9 million
Reduce office-based printing costs	\$3.2 million	\$10.7 million

“Reform” – A Word of Many Meanings

What do you want out of government reform?

- 1) REFORM = **REDUCE** *Less cost, service*
- 2) REFORM = **RESHAPE** *Looks different*
- 3) REFORM = **REDESIGN** *More value for current dollar*

The bottom line: **RESULTS**

For More Information

Opportunities For Washington (includes 2009 liquor analysis):

<http://www.sao.wa.gov/auditreports/auditreportfiles/ar1002726.pdf>

2010 State Printing Services performance audit report:

<http://www.sao.wa.gov/auditreports/auditreportfiles/ar1004989.pdf>

State Auditor's Performance Audit website:

<http://www.sao.wa.gov/EN/Audits/PerformanceAudit/Pages/PerformanceAudit.aspx>

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