STATE OF OREGON

INTEROFFICE MEMO

Governor Atiyeh

DATE: March 12, 1982

FROM: X-Bob

SUBJECT: Productivity Unit Award

I recommend that you authorize a productivity award for the Department of General Services.

Attached is a memo from Chuck Crump commenting on the long memo from Darrell Ralls outlining General Services' accomplishments in the past three years.

RWS:dd
Attachments

STATE OF OREGON

INTEROFFICE MEMO

Robert W. Smith
Jon Yunker

DATE: March 12, 1982

FROM: Charles L. Crump

SUBJECT: Productivity Unit Award

The attached memo indicating a wide variety of cost savings and reductions to not only the Department of General Services, but also to other state agencies is very impressive. While the memo from Darrell Ralls to you may not have been a result of our announcement regarding the Governor's Organizational Productivity Award, Department of General Services certainly seems to be a good candidate for such an award.

Also, while I have somewhat discouraged the Organizational Unit Award being made to whole agencies, there is probably no logical reason why the award should not be considered for such efforts. This is especially true in the situation where these cost savings, cost avoidances, and reductions can be well documented. Therefore, I would recommend that the Department of General Services be considered as a candidate for the Governor's Organizational Productivity Award, with one caveat; that the Department provide us a brief report regarding any unusual costs that may have been involved. For instance, were there a large number of increased positions over the last two biennia or other resources expended? This may be valuable information in case the award did get exposed to outside publicity and the savings-to-cost ratio was not as impressive as it looked on the surface.

CLC:ka
4576B

Attachment

Contains

STATE OF OREGON

INTEROFFICE MEMO

TO: Bob Smith, Director
Executive Department

DATE: March 2, 1982

FROM: Darrell Ralls, Director
Department of General Services

SUBJECT: General Services' Achievements in Reduction of Insurance Costs

Here is a summary of the significant achievements of the Risk Management Division since it was established on July 1, 1981.

COMMERCIAL INSURANCE PROCUREMENT

Agent of Record

On July 1, 1981, Alexander and Alexander (A & A) was appointed Agent of Record for the acquisition of commercial insurance policies. This appointment, made in accordance with Public Contract Review Board rules, streamlined the method of insurance policy acquisition.

Formerly, each policy was let out for bids separately. Agents obtaining the business were paid a commission by the insurance company issuing the policy. Under the new system, Alexander and Alexander secures competitive premium quotations from at least two insurance companies.

Selection is primarily made on the basis of the lowest cost. Insurance premiums are invoiced whenever possible on a no-commission basis. The State compensates A & A for their services on a time and expense basis. Projected A & A fees for fiscal year 1981-82 are about $30,000, compared to estimated commissions of about $88,000 under the old method of procurement, for an annual savings of $58,000.

The appointment of the Agent of Record and the highly competitive situation presently existing in the commercial insurance marketplace combined to produce significant premium savings on the following policies:

Restoration Fund Catastrophe Reinsurance

This policy was renewed September 15, 1981, for a three-year period. In addition to increasing the limits from $35 million to $75 million, the fiscal 1981-82 premium will be $104,000 or $266,000 less than the projected premium of $370,000 for the same period under the expiring policy terms. Premium rates for the three-year period will be fixed. Premiums will be increased only through increases in property values.

Astoria-Megler Bridge Insurance

The all-risk insurance policy on this facility was renewed for a three-year period beginning July 29, 1981. The three-year premium will be $82,140 compared to the three-year premium under the expiring policy of $138,900. This represents a savings of $58,260 over a three-year period.

CASUALTY ACTUARY STUDY

In December 1981, Towers, Perrin, Forster & Crosby completed an actuarial study of the Restoration and Liability Funds. This study confirmed that there was about $11 million in surplus Restoration Funds that could be returned to state agencies, while maintaining adequate reserves for future losses.

GS:sd

STATE OF OREGON

INTEROFFICE MEMO

Robert W. Smith, Director
Executive Department

DATE: March 9, 1982

FROM: Darrell Ralls, Director
Department of General Services

SUBJECT: Managing the Department of General Services
Like a Business: 1979-82

From February 1979 to date, the Department of General Services has developed new operating policies, business strategies and management practices and has implemented sound, private sector business concepts which will or have produced direct cost savings to State agencies totalling in excess of $46.1 million. Much of this saving is a direct result of improved productivity, improved financial management and the establishment of cost-control measures. In addition to the direct cost savings, a number of the advances have resulted in improved management and the implementation of new, cost effective programs. Examples are detailed in the following sections. The direct cost savings are also listed in the attachment.

1980-81

The Department of General Services was able to reduce state agency assessments during 1980-81 by $1.1 million by reducing the Department's cash needs. This reduction was possible due to improved cash flow management and establishing incentives for state agency personnel to reduce the department's outstanding accounts receivable.

1981-83

1. In response to the General Fund revenue shortfall, the Department will implement planned General Services assessment and Uniform Rent reductions to state agencies totalling $3.8 million during 1981-83. These reductions are the result of the overall improved financial management of the Department, including efforts to reduce needed working capital, efforts to reduce accounts receivable, improved business management systems and procedures, and legislation implemented allowing consolidation of cash reserves. The reductions also reflect improved program management, including increased productivity and the implementation of cost-control measures.

2. An aggressive evaluation of Liability Fund and Restoration Fund practices resulted in operation of the Funds on a loss-sensitive basis and allowed the return of $11.1 million in Restoration Fund balance to state agencies during 1981-83.

3. The Department of General Services has also implemented program and service improvements that will result in increased productivity and additional cost savings to state agencies estimated at $30.1 million during 1981-83, as well as future cost avoidance.

A. <u>Improved Business Practices</u>

1. The Department has adopted sound, private sector oriented, business systems to evaluate the performance of all service activities. Monthly Profit/Loss Statements are being routinely developed for all activities and profit performance is being rigorously monitored by top management. Program changes and/or cost reductions are effected in a timely manner through a specific action plan to correct the performance of marginal or non-profitable enterprises. Likewise, service charge reductions, as noted above, are effected where profits exceed projected operating and capital fund needs.

2. Fundamental to improved management of the Department's service programs has been the adoption of a comprehensive business plan. The plan includes a short range (1981-83 biennium) operating plan for each management unit, a Long Range (five year) plan and the establishment of indicators (Performance Expectations Plan) to measure program performance.

B. <u>Purchasing Division</u>

1. Improvement in the use of Price Agreements will enable the State to take advantage of declining markets and prices through the use of de-escalator clauses. The recorded price adjustments in the first two months of 1982 in the petroleum agreement alone represent a price reduction of 9%, which if extended over a period of a year would total approximately $575,000.

2. Operating efficiencies in the USDA Food Program will enable a fee reduction from $1.50 per unit to $1.00 per unit, a 33% reduction producing $918,000 savings to users during 1981-83.

3. Effective management of Central Stores inventory has produced a $200,000 reduction in inventory, while maintaining a high service level. This will allow a reduced mark-up in items purchased by state agencies.

4. The development of measurable performance specifications which permitted OSU Athletic Department radio contract to be competitively bid, resulted in increased revenue and benefits to OSU of $2,090,000 over the prior contract. The prior contract had been negotiated.

5. Aggressive action by the Purchasing staff resulted in the State qualifying for factory rebates for several automobile purchases during the 1981 model year. Although the rebate totalled only $6,600, it clearly established the principal that the State will qualify for these benefits in the same manner as private sector purchasers.

6. An aggressive quality assurance program was authorized for the 1981-83 biennium with the objective of more closely matching product quality, performance and contract conditions to agencies' service requirements. This program will sharply reduce the wasteful practice of over or under stating product qualities.

C. Services Division

1. Implementation of a mail presort program for Salem agencies saves 1.7 cents postage per first class letter, estimated to produce savings of $500,000 during 1981-83.

2. The Office Equipment Repair Program eliminated a $30,000 deficit by revising rates to correspond to services performed, by shifting emphasis from on-call repairs to preventive maintenance contracts, and by increasing productivity.

3. Through aggressive management of Telecommunications responsibilities, the Department intervened successfully in two separate telephone rate hearings before the PUC, resulting in cost avoidance of $2.7 million for Essx rates and $6.6 million for Telepak rates during 1980-84.

4. Improved telephone management reporting provides agencies with a detailed listing of toll and directory assistance calls and identifies calls that could have been made using SPAN. These reports provide agencies the information needed to evaluate telephone usage and reduce costs.

5. Implementation of Regional SPAN telephone service reduced long distance charges to Washington, Idaho, Northern California and Nevada. ($105,000 total savings)

6. Five percent reduction in telephone network will produce a savings of $180,000 in 1981-83.

7. Deferred printing of the State telephone directory will save $30,000.

8. The Department has made aggressive and innovative efforts to address energy issues in its fleet management program:

a. In 1980, the Department conducted a test project to determine the potential use of gasohol in the State fleet. The study determined that gasohol was comparable in fuel economy, vehicle maintenance costs, and vehicle operating costs, and therefore feasible where available and competitively priced. As a result, the Department will be in the position to take advantage of future changes in gasohol/gasoline price structures.

b. In 1979, the Department established an aggressive monitoring and reporting of State agency gasoline consumption to respond to the Governor's directive to reduce consumption. State gasoline consumption for October, 1979 - October 1980 period was reduced to 89% of the 1978-79 base year. This annual reduction of 1,199,016 gallons can be translated into a biennial savings of $2.7 million at $1.13 per gallon.

c. An aggressive marketing strategy of matching vehicles to intended use has produced an average fuel economy of one mpg, for an estimated savings of $79,674.

d. The introduction of small non-traditional fuel efficient vehicles for service and delivery application.

9. Aggressive ongoing evaluation and changes in fleet management practices resulted in significant improvements:

a. Implementation of vehicle replacement criteria based on individual vehicle type, class, and use, to replace a fixed mileage criteria, resulted in extending the fleet utilization life and eliminating the need for 1981 vehicle purchases, producing a one-time savings of $1.3 million. Continuation of these policies will produce further savings in 1981-83 and 1983-85 biennia.

b. Consolidation of Oregon State Penitentiary and Western Oregon State College fleets with General Services fleet produced $105,431 savings.

c. Vehicle parts costs have been reduced through reconfiguring purchase patterns and implementation of a salvage/recycling program.

10. The Department implemented an aggressive Vehicle Misuse Policy clearly defining vehicle usage standards, establishing an accident review process, and emphasizing disciplinary action for vehicle misuse.

11. Revised Shuttlebug schedules and the elimination of the Motor Pool Express produced an estimated savings during 1981-83 of $84,000. These savings were included in the 1982 General Services assessment reduction to state agencies.

D. <u>Printing Division</u>

1. Consolidation of the Department's ten copy centers to five centers, in combination with a realignment of the responsibilities of the Small Press Unit, resulted in the reduction of seven printing positions in 1981-83. This action actually improved service through better utilization of personnel and other services. The consolidation produced an estimated cost savings of $249,000.

2. Standardization of stationery supplies and the follow-up to ensure compliance with the standards have improved the appearance of the State's stationery and the elimination of personalized stationery. We are unable to quantify cost savings resulting from these actions.

3. Professional production and accounting consultants were retained to develop a job costing and production performance system to improve the management capability of the State Printing Plant. The Department is now beginning implementation of the consultant's recommendations. Although no cost savings have been established, significant improvements are expected in the printing management responsibilities.

E. Real Property Division

1. Recruitment of professional construction project management staff in combination with the employment of private sector construction management techniques, has enabled cost-containment of construction projects and avoidance of cost overruns. During the last two years, 45 construction and improvement projects have been completed within available funds. Significant program changes include the development of performance oriented, measurable, incentive contracts with professional consultants and contractors; application of value engineering, independent cost analyses and cost control measures to state construction projects; and development of the scope, cost and construction time schedule in detail prior to establishing project budgets. The incentive contracts reward superior performance and penalize inferior performance.

2. Development of realistic job performance standards and work incentives in the state-owned Building Services Program have increased productivity by 33% and produced biennial savings of approximately $200,000.

3. Improved management of the State Surplus Lands Program and aggressive marketing will result in the sale of 300 acres of state land for an industrial park in Salem. Sale proceeds are estimated to be $10.5 million. Additional benefit will be gained from returning the land to tax rolls.

4. Aggressive department action to establish the State as the leader in recyclable paper program has resulted in a 20% increase in state use of recycled paper and a 60% increase in acceptable paper volume. Although this will not produce significant direct cost savings, it reinforces the State's commitment to energy conservation and raw materials resource management practices.

5. The State Parking Program, which provides parking for state employes and agency vehicles, has been placed on a self-sustaining basis for the first time in a decade.

6. Management of the private sector house rental program in the North Mall and Salem will be converted from a loss position to a self-sustaining program that produces a return on the State's investment.

7. The rental charge for state-owned space has been stabilized within a narrow range ($0.62, $0.60 and $0.60) for the last, the present and the next biennium. This was accomplished by improved visibility and management of cash flow and cash reserves, cost-effective changes in the provisioning of services and improved efficiency.

8. Improvements in the office space leasing program are also being realized through the adoption and application of private sector practices. Of note are the "targets of opportunity" concept which was utilized to develop work priorities in the major population areas of the State and the "anchor lease" principle. Application of this latter technique will allow the State to capitalize on the fact that we are presently leasing in excess of two million feet of office space and that significant cost savings can be realized when the State becomes a major tenant in a given structure. Management of the two million feet of leased space on an integrated rather than on a single agency basis will return long term benefits and cost reductions to the State through this management plan.

9. The Department has conducted studies during the past three years to identify the relative merits of state ownership of office buildings compared with rental or leasing. The studies indicate that over a 50 year period, leasing costs are at least 2.8 times greater than ownership costs. These conclusions have prompted the establishment of a departmental priority to construct buildings whenever funds are available, rather than continuing the past practice of indiscriminate leasing. For example, the Executive and Revenue Buildings, which were completed and occupied within this time period will result in rental savings to the occupants during the 1981-83 biennium of $500,000.

F. Risk Management Division

In 1980, the Department commissioned a study by Clifton and Company of the State of Oregon Tort Liability Insurance Program to evaluate and make recommendations concerning program organization, policies, workload, and procedures. The Clifton Report made numerous recommendations which, if implemented, would produce an estimated cost savings of over $500,000 annually.

The Department, through its 1981-83 budget and legislative package, implemented the significant recommendations of the Clifton Report, including:

1. Creation of the Risk Management Division of the Department of General Services, with a professional Risk Manager.

2. Transfer of the Liability Claims Division of the Department of Justice to the consolidated Risk Management Division to improve claims management.

3. Establishment within the Risk Management Division of a Loss Control Section.

Some specific program accomplishments include:

1. Improvements in the insurance procurement process, through using a single Agent of Record instead of individual bids will result in general administrative savings of $58,000 during 1981-83.

2. Improved management of the Restoration Fund, including careful analysis of catastrophe exposure, resulted in increasing catastrophe reinsurance limits from $37 million to $75 million and then to $200 million. Through the use of the Agent of Record and the competitive market situation, this significant increase in coverage was purchased at a premium savings of $500,000 over the previous policy.

3. By conducting a thorough review of insurance coverage to avoid duplication of policies and taking advantage of market conditions, further premium savings are possible. One example is the premium savings of $39,000 achieved upon renewal of the Astoria-Megler Bridge policy.

FEB/BB:sd

MANAGING THE DEPARTMENT OF GENERAL SERVICES

LIKE A BUSINESS: 1979-82

	Program Action	Cost Savings
1.	1980-81 Assessment Reductions	$ 1,083,000*
2.	1981-83 Assessment and Uniform Rent Reductions	3,750,000
3.	Restoration Fund Cash Rebates 1981-83	11,100,000*
4.	Purchasing Division	
	a. Use of de-escalator clauses in price agreements	575,000
	b. USDA Food Program fee reduction	918,000*
	c. Improved inventory management - Central Stores	200,000
	d. Development of performance specifications- OSU Athletic Department	2,090,000
	e. Automobile factory rebates	6,000
	Services Division	
	a. Salem implementation Mail Presort Program	500,000
	b. Telephone rate intervention	9,300,000
	c. Implementation Regional SPAN telephone service	105,000
	d. Reduction State Telephone Network by 5%	180,000
	e. Defer printing State Telephone Directory	30,000*
	f. Reduced gasoline consumption	2,700,000
	g. Fuel economy, Motor Pools	80,000
	h. Improved fleet replacement practices	1,300,000
	i. Consolidation of fleets	105,000*
	Printing Division	
	a. Consolidation of Copy Centers	249,000*
	Real Property Division	
	a. Building Services increased productivity	200,000
	b. Sale of 300 acres surplus land	10,500,000*
	c. Reduced office costs through State ownership	500,000
	Risk Management Division	
	a. Improvements through Agent of Record process	58,000
	b. Premium savings Restoration Fund Catastrophe Reinsurance	500,000
	c. Review of insurance coverage	39,000
	TOTAL	$46,068,000

*One-time savings