Printing Industries Alliance

Printing Industries Alliance

Position Paper - July 2018

New York State Industries for the Disabled Preferred Source Application for Mail Fulfillment

Printing Industries Alliance (PIA) is the trade association representing printing and print related businesses in New York State. On behalf of the New York State printing industry, we would like to express our strong opposition to the New York State Industries for the Disabled (NYSID) application, dated April 1, 2016, and tabled at the July 14, 2016 Procurement Council meeting, to become a Preferred Source for Mail Fulfillment.

Approval of this application will have a significant negative impact on a substantial number of New York State printing companies in the form of lost business and jobs.

We have multiple concerns including:

- Most critically, approval of this application will mean lost business and lost jobs. The printing industry is undergoing dramatic change. The rise in digital communication has caused entire segments of the industry to disappear with a corresponding loss of jobs. Technological change has increased the level of automation resulting in lost jobs as well. Competition is fierce with profit margins often in the 2-3% range (Source: Chief Economist, Printing Industries of America). Bids for jobs worth thousands of dollars are often won or lost on the difference of a few dollars. Over the time period from 2006 to 2015, the industry in New York State has lost 1,067 companies or approximately 26% of the industry. To put this into a more personal perspective, these closings cost 39,580 jobs or about 33% of the workforce.

New York Commercial Print and Publishing Trends		
Year	**Establishments**	**Employees**
2006	4,117	120,043
2007	4,129	119,920
2008	3,962	111,868
2009	3,740	100,157
2010	3,543	93,799
2011	3,402	83,060
2012	3,273	79,232
2013	3,215	78,486
2014	3,197	82,864
2015	3,050	80,463
Number of Companies Closed	**1,067**	
Number of jobs lost		**39,580**

Source: County Business Patterns database from U.S. Census Bureau, Supplied by Chief Economist, Printing Industries of America

PIA Headquarters
636 North French Road, Suite 1
Amherst, NY 14228
tel: 716-691-3211 or 800-777-4742
fax: 716-691-4249

NY/NJ Metro Office
195 Prospect Park West
Suite 1A
Brooklyn, NY 11215
cell: 203-912-0804

LI Office
3951 New York Avenue
Seaford, NY 11783
cell: 516-528-4747

www.PIAlliance.org | info@PIAlliance.org

These are well paying jobs that pay mortgages, put children through college, and contribute to the New York State tax base. It can be easily seen, in a shrinking industry, jobs handed to NYSID through approval of this application will come from New York State printing companies, resulting in more closed companies and displaced workers.

- Printing is a small business industry. Seventy-five percent of the printing companies in New York State employ under 10 employees and fully 87 percent are under 20 employees (Source: Chief Economist, Printing Industries of America). These small printing companies are fragile, and none are more fragile than the MBE and WBE printing firms. All of the factors causing a decline in the printing industry are magnified when applied to MBE or WBE printing firms. These firms struggle the hardest to stay in business under adverse conditions. This effect is highlighted perfectly by the New York State 2016 MWBE Disparity Study (issued in June, 2017). This study indicated that the Preferred Source Program would negatively impact MWBE contracting opportunities and cites the following examples:

  ✓ *"Several MWBE business owners in the anecdotal interviews expressed concern that the Preferred Source Program posed a significant barrier to their participation on State contracts. For example, a minority male owner of a janitorial service questioned why certain contracted services were reserved only for preferred vendors"- Page 8*

  ✓ *"The stated objectives of the Preferred Source Program include promoting social benefits, such as increased resident employment, increased State income tax revenue, and provision of commodities and services at competitive prices. However, this program also limits free market competition. The results of the 2016 MWBE Disparity Study indicate that willing and able market MWBEs that provide the types of approved preferred source commodities and services solicited by the State agencies and authorities are being denied the opportunity to contract with the State"- Page 9*

  ✓ *"This Program, as applied, reduces opportunities for business owners to participate in State contracts for the commodities and services approved under the Preferred Source Program. The Program should be assessed to remove the barriers to MWBEs that provide the commodities and services currently in the exclusive domain of the Preferred Source Program"- Page 10*

  The study goes on to show a statistically significant disparity in the utilization of MWBE business as prime contractors for state purchases of various commodities. Certainly, approval of the NYSID application being considered will increase this disparity and have a disproportionate impact on our MBE and WBE companies. To view the entire New York State 2016 MBWE Disparity Study, visit: https://esd.ny.gov/doing-business-ny/mwbe/mwbe-reports

- The 2016 NYSID application is essentially the same as a previously rejected application. In 2013, NYSID applied to become a Preferred Source for Digital Printing. This application was rejected by the Procurement Council and a NYSID appeal was again denied by OGS Commissioner RoAnn Destito. The current application is disingenuously entitled for "Mail Fulfillment". It is actually for

"Digital Printing that is sent through the Mail" and would cover a sizeable subset of the overall digital printing market. There is nothing different between the previously rejected 2013 application and the 2016 application, other than the size of the market they are attempting to monopolize. All of the reasons that the Council and Commissioner Destito had to reject the 2013 application are just as valid today.

- Printing in New York State is ubiquitous. There are printing firms located in every part of the state. You probably have a relative, friend, or neighbor whose job will be in jeopardy if the NYSID application is approved. The NYSID application proposes to do digital printing at their member locations across the state. As a consequence, work handed to NYSID will mean job losses in all areas of the state. Do you really want to be the person sitting in Albany casting a vote that will cause a printing industry employee in Western New York, Long Island, Albany, or metro New York to lose their house or end their child's college aspirations?

- NYSID's April 1, 2016 application to the Procurement Council is factually incorrect and they are basing their argument to the Council on this falsehood. The cover letter makes the following incorrect statements:

  ✓ *"Procuring agencies now require a complete turnkey solution for mail fulfillment services. All aspects of the job from label to envelope to mailing must be performed by the contractor."*
  ✓ *"Government agencies... now also require production of the documents to be mailed."*

  This is simply not correct. There are printing firms across the state who perform printing for any number of state agencies and other government entities and work with a mailing company to do the delivery. Printing firms who don't do mailing, work with mailers. Mailers who don't do printing, work with printing firms. It's actually quite simple and seamless. When the application was originally submitted in April 2016, NYSID argued that its rejection will mean loss of jobs within their constituency. At the time, they brought in several employees from their partner organization, Center for Disability Services (CFDS), in Albany, to testify before the Council. These employees testified, very emphatically and emotionally, that the CFDS operation was in danger of closing down if the application was not approved. Here we are two years later with the application not approved and the CFDS printing operation continues in strong operation.

- The NYSID application seeks to control a market that is estimated to currently be approximately 150 million dollars per year*. While the application portrays the work in question to be merely some simple statements and letters that would be printed and mailed, this is far from the case. It also includes anything that can be digitally printed, personalized or not, and sent through the mail. Examples include:

  ✓ Sophisticated personalized marketing pieces sent to prospective students from SUNY
  ✓ Personalized invitations to an exhibit at a public museum
  ✓ Personalized vehicle registration information from DMV

  *Source: Chief Economist, Printing Industries of America

- ✓ Personalized invitations to a public hospital fundraiser
- ✓ Personalized tourist information, including "I Love NY" mailed to potential visitors
- ✓ . . . and more! The list is endless!

- A large number of our members currently utilize New York State community rehabilitation agencies as a vital part of their production process, often times for mail fulfillment. We surveyed our Board of Directors on their company's utilization of community rehabilitation agencies. In 2016, we surveyed 29 Printing Industries Alliance Board member companies. Of the 20 who responded, 16 currently or regularly utilize employees from these agencies as vital partners in their production process. These companies employ handicapped, hearing impaired, and vision impaired individuals as well as a large number of veterans. Approval of the NYSID application will result in lost jobs. It would be ironic and unfortunate if the decreased business to New York State printers resulted in less utilization of community rehabilitation agencies and lost jobs within that community.

- The competitive nature of the New York State printing industry delivers rock bottom pricing to governmental entities purchasing mail fulfillment/ printing, protecting the New York State taxpayer. Adoption of the NYSID application will decrease competition and raise costs to the New York State taxpayer.

- The NYSID application seeks to restrict access to this 150 million dollar digital print/mail market. Production of this work would be limited to NYSID, the NYSID members listed in the application, and a very limited and hand selected list of for profit printing firms that they chose to work with. During the discussion about the 2013 application, several of our members approached NYSID and requested information about becoming a "Preferred Source" vendor to NYSID. They were advised that NYSID does not require any additional vendors. This is a monopoly, plain and simple.

- The NYSID application references the fact that "Mail Fulfillment contracts do not and will not include Offset Printing." The lines between what can be done digitally versus offset have become blurred and there is no way for OGS to reliably police whether a mailing contract is being produced digitally or offset. Also, many mailing jobs are produced utilizing a combination of offset and digital printing. The offset "shell" is produced, and then it is personalized for mailing, utilizing digital equipment. It is impossible to police this production process.

- Variable Data Printing is not "copying" or "document processing". Digital printing equipment is expensive and requires extensive maintenance to keep operational. Working with digital files and operating a digital printing press is quite complex especially when producing variable data printing. The equipment needs to be operated over three shifts to be cost-effective, otherwise the maintenance and capital costs are too high to be economical.

- Granting "Preferred Source" status gives an unfair competitive advantage to NYSID and their partners and essentially creates a monopoly in a multi-million dollar market. Granting Preferred

Source status for mailing/printing does not provide the transparency and level playing field that the New York State taxpayer deserves.

- By their own admission, granting this application will allow NYSID to move into all areas of "digital printing/mail fulfillment" including the high end and high volume examples cited above.

- If approved by the Procurement Council, a decision will have been made negatively impacting the work lives of thousands of New Yorkers based on a proposal that was rejected several years ago.

In reviewing the circumstances behind the tabling of the NYSID application in 2016, members of the Council may hear about a workgroup that was established between the interested parties for the purposes of reaching a reasonable accommodation that all parties could live with. Included in the workgroup was PIA, NYSID, The Center for Disability Services, OGS and several agencies. A number of meetings were held, one at the Center for Disability Services facility. At that meeting, the workgroup was given a tour of the Center's digital printing/mail facility. What we saw and heard was startling.

CFDS already had a very high tech digital printing operation installed before the 2016 NYSID application was submitted to the Council, including two Canon color digital printing presses, two OCE mono-color digital printing presses, an extremely expensive automated mail sorting machine (not seen in most printing operations), and several mail folders/inserters. The equipment was purchased on a grant, we were told, with a purchase price listed at 2-3 million dollars on the NYSID application. This equipment will produce a wide variety of products besides mailed letters. We were also told that a new facility was being constructed to house their digital printing operation. At the time, we were told that the CFDS digital printing operation was doing $8 million dollars a year in sales volume, with 70% of that figure being postage. That means, at the time, they were doing about $2,400,000 per year in print/mail volume, putting CFDS ahead of most Albany area PIA members in sales volume. Also, 30% of their sales volume was coming from private sector accounts, we were told. That equates to about $750,000 a year in private sector work. To take additional advantage of the situation, a Commercial Services division had been established at CDFS whose purpose, one would suppose, is to further penetrate the private sector by taking advantage of what they described as the grant funded (free) equipment. The printing/mailing capabilities at CFDS exceed those found in most commercial printing operations in New York State.

Based on these facts, a Council member might ask:

- Why would this significant investment of $3 million be made before the NYSID application is approved?
- Why would NYSID allude to individuals at CFDS losing their jobs if the application was not approved with such a robust commercial printing operation?
- Has anyone at CDFS, in fact, lost their job because the application has been tabled for almost two years?
- Why would they need to become a Preferred Source when they already seem competitive for private sector work?

- Does New York State want to subsidize them for public sector work by making them a Preferred Source and have them utilize the economic advantage of the subsidy to become more competitive on private sector work?
- Should grant funded equipment be used to compete with the private sector?

As referenced above, the workgroup met several times through the summer in 2016 and PIA made an effort to come up with a solution that would be acceptable to all. We eventually pulled out of the process for two reasons. First, we do not trust NYSID. Our general feeling is that the real motivation behind the application is more about increasing NYSID cash flow and less about increasing employment for disabled workers. The 2016 application and the earlier 2013 application were both based on false assertions and vague facts. The NYSID presentation of the 2016 application included CFDS staff who made untrue and vague statements regarding their operation and the possibility of layoffs if the application was not approved. There was no mention in the application about their parallel commercial printing operation or the funding and sophistication of their equipment. We continue to believe that both applications were designed to get NYSID's foot in the door to take all of the digital printing market as a preferred source in the future. Second, we pulled out of the workgroup process immediately after the publication of a NYS Comptroller audit on the Preferred Source program. This audit outlined a number of general issues regarding Preferred Source Contracting and specifically dealt with a scandal involving a NYSID corporate partner, Camelot Print and Mail. The following are excerpts from the audit:

✓ *"We found NYSID was improperly awarding preferred source contracts to a corporate partner for a non-approved service. During our scope period, we found a printing company received 89 contracts valued at more than $1.5 million for "reproduction" – an approved service included on the List under document processing. However, it appears that most – if not all – of these contracts are actually for digital printing, a service that is not an approved preferred source offering. We visited the printing company where officials confirmed that 95 percent of the work they do is digital printing, including the three preferred source contracts we reviewed and all of the State Fair ticket printing. We also received a tour and observed the digital printers being used. In addition, we reviewed the manuals and other available information found online for each printer listed in the printing company contracts we reviewed and determined that two of the printers used are digital printers and the other is a digital press.*

✓ *We also found that NYSID was clearly aware that digital printing was not an approved service and did not fall under the scope of reproduction services. In April 2013, NYSID applied to have digital printing added as a preferred source service. However, their application was denied by the Procurement Council in May 2014, and the denial was upheld by the Commissioner of OGS as the chair of the Procurement Council in July 2014."*

Source: New York State Office of the State Comptroller, Preferred Source Contracting, Report 2014-S-77, Page 12

▪ *"Many NYSID contracts awarded for reproduction services appear to have circumvented the competitive bidding process. We found one private printing company, which partnered with a NYSID member agency, received 89 contracts for reproduction valued at over $1.5 million. However, it appears that most – if not all – of these contracts were actually for digital printing, a service that the*

> *Procurement Council has specifically excluded from the Program. NYSID earned over $60,000 in administrative fees on these contracts."*

Source: New York State Office of the State Comptroller, Preferred Source Contracting, Report 2014-S-77, Page 7-8

Our members had alerted us to the ongoing situation with Camelot and we advised the Procurement Council of our concerns on March 31,2015. In return we received a very sarcastic and caustic letter from NYSID President Ron Romano who stated our complaint was from a "disgruntled PIA member". In the same vein, NYSID published a 67-page rebuttal to the OSC's 22-page report, most of which was a defensive refusal to accept the audit findings.

Based on these two factors, we really feel that the trust factor is not there, the application is a "money grab", and any compromise we would have agreed to gives NYSID what they really want - open the door to take the rest of the digital printing market in the future.

In closing, we would ask that this application be rejected by the Procurement Council. It is truly a "wolf in sheep's clothing". We have supplied industry-substantiated numbers that illustrate the job loss that will occur if approved. We have pointed out the disingenuousness of the NYSID application using generally accepted industry knowledge. We have illustrated the difficulty that NYS will have in policing this if it is approved. Approval of the application will have a significant negative impact on a substantial number of New York State companies and their employees, including members of the disabled workforce. We appreciate your thoughtful consideration of this request to reject the proposal and would be pleased to answer any questions you may have. Thank you.

For further information, contact

Tim Freeman
President, Printing Industries Alliance
636 North French Road
Amherst, NY 14228
716-691-3211
tfreeman@pialliance.org