

Staff Notes on the DGS Rate Request for the Office of Graphic Communications (OGC) Internal Service Fund

The Department of General Services (DGS) is requesting a change in the hourly labor rate it charges agencies for services performed by the Office of Graphic Communications (OGC). This DGS office provides graphic services, publication layouts, web design, and other related services to State agencies at a cost that has been below the private sector. Under the requested rate change, the labor rate charged for design work provided by this office would increase from \$60 per hour in this fiscal year to \$70 per hour in FY 2006. DGS proposes that the labor rate increase take effect on July 1, 2005.

Based on the estimate provided by DGS of the billable hours for the office at current staffing levels (4,810 hours), a labor rate increase appears needed to obtain sufficient revenues from customer agencies in FY 2006 to cover the expenses of the office. In the current fiscal year, through March 31, the OGC fund is experiencing a loss at the \$60 per hour rate. In FY 2006, at the same \$60 rate, DGS would obtain an estimated \$288,600 in revenues from customer agencies for the billable hours of the office. This is about \$40,506 less than the amount that DGS projects will need to be recovered by the fund through labor rates (\$329,106) in order to meet the total projected expenses of the office. However, with an increase to a \$70 hourly rate in FY 2006, DGS estimates that the fund would obtain an estimated \$336,700 in labor rate revenues from customer agencies. This would provide a small cushion of \$7,594 above the projected amount for expense recovery. (It should be noted that the analysis by DGS and the resulting \$336,700 revenue figure assume that despite the hourly rate increase, OGC will have a sufficient demand for its services to fully bill the number of billable hours that DGS estimates for the office).

According to DGS, the \$70 rate is within the range of what similarly-experienced freelance designers who work out of the home are charging, and is better than the prices charged by commercial design operations with overhead costs of their own to recover. DGS has provided information showing that some State agencies have contracts in which the rates charged by private sector firms for design work exceed the proposed OGC rate.

Moving forward into FY 2006, DGS will need to carefully monitor the workload of this office. If the workload and hours that are billed by this office slip by a substantial extent from the level DGS expects, then even the higher hourly rate will not produce sufficient labor rate revenues to cover the office's expenses. The cash resources and the fund balance of this operation (based on the March 31, 2005 financial statement) are less than ten percent of annual expenses.