

MAIL IT'S REAL

I MISS YOU! RENÉE JOHNSON, 32



2002 COMPREHENSIVE STATEMENT
ON POSTAL OPERATIONS



2002 COMPREHENSIVE STATEMENT ON POSTAL OPERATIONS

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All references to "2002" or "the year" refer to the government fiscal year ending September 30, 2002.

A. FUNDAMENTAL SERVICE TO THE PEOPLE

(39 U.S.C. 101(a))

1. GENERAL

It was the most challenging year the Postal Service ever faced. Following the terrorist attacks of September 11, 2001, the Postal Service had to reconfigure its nationwide transportation network, virtually overnight, to adjust to significant reductions in air transportation and stringent security limitations that affected what could be flown by commercial passenger aircraft. Large volumes of mail were shifted to ground transportation, including long-distance trucks and Amtrak. Our transportation alliance with FedEx, which was implemented only weeks before the beginning of the fiscal year, was critical to the air transportation of time-sensitive products, including Express Mail® and Priority Mail® packages. Added capacity on FedEx provided even more air transportation of mail beginning in January 2002.

Barely one month after the September 11 terrorist attacks, the Postal Service learned that anthrax had been sent through the mail. This resulted in the tragic deaths of two employees, with others becoming ill and the long-term closing of two mail processing facilities, one in Trenton, NJ, and the other in Washington, DC, pending decontamination.

The Postal Service acted quickly to provide medication to employees with potential anthrax exposure and made personal protective equipment — masks and gloves approved by the National Institutes of Occupational Safety and Health — available to all employees. Facility maintenance procedures were modified to limit the potential of further anthrax infection to employees. Information about the proper handling and disposition of suspicious mail was sent to every address in the United States.

When the Trenton and Washington processing plants were closed, mail left inside was delivered only after being successfully sanitized using an electron-beam irradiation process. This same process is also being used to treat mail addressed to federal government offices in Washington, DC.

An initial reward of \$1 million was offered jointly by the Postal Service and the Federal Bureau of Investigation for information leading to the arrest and conviction of the anthrax mailer. This reward was later doubled and augmented by an additional \$500,000 offered by ADVO, Inc., one of the nation's largest mailers. The reward stands at \$2.5 million.

Within two months of the anthrax attacks, independent polling indicated that consumer confidence in the safety of the mail had rebounded to pre-crisis levels. The Postal Service, however, continued its efforts to work with all stakeholders to develop programs and processes to continue improving the safety and security of the mail. By March, the Postal Service completed and submitted to Congress an Emergency Preparedness Plan to identify technologies, processes and costs associated with protecting America's mail system from similar attacks, both in the near and long term.

At the beginning of the year, the Postal Service projected that several factors, primarily a sluggish economy, could result in losses as high as \$1.35 billion for the year. As the costs of the anthrax response and those of declining mail volume following September 11 were estimated, it appeared that we could close the year with a loss over \$4 billion. However, this was tempered by a number of factors.

Most significantly, the Postal Service began the year with a focused program of cost reduction. This included realigning the field and headquarters management structure, aggressive balancing of workhours against workload, postponing some program expenditures, reducing career employment by 23,000 positions through attrition, cutting 78 million workhours, and increasing labor productivity and total factor productivity. By the end of the fiscal year, Postal Service career employment was reduced to 1995 levels yet we delivered 21 billion more pieces of mail to 12 million more addresses.

In addition, Congress and the President made \$762 million available to the Postal Service for costs related to the bioterrorist attacks. And the early implementation of new postage rates in June added some \$1 billion to our bottom line.

In April the Postal Service completed and submitted its comprehensive Transformation Plan to Congress. The Plan represents our response to long-term technological and commercial trends that are reshaping national and international postal services. As such, it contains specific strategies that will enable the Postal Service to successfully carry out its long-standing mission of providing affordable, universal service to everyone in America — no matter who, no matter where. To meet the challenges of today and to prepare for fundamental structural transformation, we are pushing business effectiveness and operational efficiency to the limits permitted by current postal laws. In addition, the Plan calls for legislative actions to provide the Postal Service with the increased flexibility needed in a changing marketplace.

Flexibility in postal ratemaking is a key element of the Transformation Plan. Recognizing the Postal Service's challenging financial position, the independent Postal Rate Commission encouraged parties to settle the omnibus rate case filed in September 2001. The parties were able to reach a negotiated rate settlement which resulted in implementation of new rates three months earlier than anticipated, increasing revenue by some \$1 billion during the final quarter of the fiscal year.

Due to aggressive cost management, homeland security appropriations and the early implementation of new postage rates, our net loss for the fiscal year was \$676 million, significantly less than original projections. We were also able to reduce outstanding debt for the first time in five years and, for the first time in 31 years, reduce total expenses below the previous year. We did this while extending delivery to 1.8 million new addresses and ending the year with record levels of service performance and strong customer satisfaction.

A historic rates summit, jointly organized by the Postal Service and the Postal Rate Commission, with representation from throughout the mailing community, explored a number of innovative approaches to postal ratemaking. By the end of the year, the Postal Service had filed an innovative, flexible pricing proposal with the Postal Rate Commission for our new Confirm service. By the end of the year, the Postal Service filed two targeted pricing proposals with the Commission: a new classification for periodicals and a negotiated service agreement with Capital One Financial Services, Inc., the largest user of First-Class Mail service. These initiatives are indicative of an aggressive and sustained growth strategy occurring throughout the entire organization.

The actions we took in 2002 have laid a foundation for savings in 2003 and beyond, setting the stage for achievement of our Transformation Plan goal of reducing/removing \$5 billion in costs from our system by the end of 2006.

2. BOARD OF GOVERNORS

As the governing body of the U.S. Postal Service, the 11-member Board of Governors has responsibilities comparable to a board of directors of a publicly held corporation. The Board is composed of nine Governors appointed by the President of the United States with the advice and consent of the Senate. The other two members of the Board are the Postmaster General and the Deputy Postmaster General. The Governors appoint the Postmaster General, who serves at their pleasure without a specific term of office. The Governors, together with the Postmaster General, appoint the Deputy Postmaster General (39 U.S.C. §202).

The Board meets on a regular basis and, at the annual meeting in January, the chairman is elected by the Governors from among all members of the Board. The vice chairman is elected by the full Board.

The Board directs the exercise of the power of the Postal Service. It establishes policies, basic objectives, and long-range goals for the Postal Service in accordance with Title 39 of the U.S. Code. Except for those powers specifically vested in the Governors, the Board may delegate the authority vested in it by statute to the Postmaster General under such terms, conditions, and limitations, including the power of redelegation, as it deems desirable (39 U.S.C. 402). The Governors are authorized to establish reasonable and equitable classes of mail and reasonable and equitable rates of postage and fees for postal service (39 U.S.C. 3621). A specific power reserved by statute for the Governors alone is to approve, allow under protest, reject or, by unanimous written decision, modify recommended decisions of the Postal Rate Commission on postal rate and mail classification changes (39 U.S.C. 3625).

The Board held regular monthly meetings during 2002 for a total of 24 days. Ten of the regular meetings were held in Washington, DC. The regular meeting in February was held in Phoenix, AZ and the regular meeting in July was held in Anchorage, AK. In addition, the Board held five special meetings. The special meetings were teleconferences that originated from Washington, DC.

The Board had three standing committees: Audit and Finance, Capital Projects and Strategic Planning. The committees held regularly scheduled meetings during the year to consider matters within their areas of responsibility and refer items to the full Board for consideration.

In October 2001, the Board approved funding for the second deployment phase of the Mail Evaluation Readability and Lookup Instrument systems (MERLIN). The Board also approved funding to purchase Wide Field of View Cameras for use with automated mail processing equipment. The Board voted to adopt the *FY 2002 Annual Performance Plan* and also approved a borrowing resolution.

In November 2001, the Governors withdrew a request for a decision from the Postal Rate Commission on an experimental suspension of the fee for manual Delivery Confirmation service during a planned trial period.

At its December 2001 meeting, the Board approved the audited 2001 financial statements. The Board also approved a 2003 appropriation request to Congress, which included the full remaining amount due the Postal

Service from 1991 to 1998, under the Revenue Forgone Reform Act of 1993. The Board deferred requesting further funds for mail sanitization, detection and security, deciding to make a later Supplemental Appropriation Request to cover those costs.

In January 2002, the Governors reelected, to second terms, Robert F. Rider as Chairman of the Board and S. David Fineman as Vice-Chairman. They also set the price for the Heroes of 2001 semipostal stamp and increased the price of the Breast Cancer Research semipostal stamp. The Board also approved the *Postal Service's 2001 Annual Report*.

In February, the Board announced the appointment of William T. Johnstone as the new Secretary of the Board.

At the March meeting, the Board announced that the Postal Service's comprehensive Transformation Plan would be submitted to Congress in April 2002. The Board also approved funding to extend the lease of the Burlingame, California, Peninsula Delivery Distribution Center, and approved a borrowing resolution.

In April, the Governors accepted the Postal Rate Commission's recommendation for a three-cent increase in the price of a First-Class stamp, to 37 cents, as part of a 7.7 percent overall rate increase, to take effect June 30, 2002. The Board approved management's request to file a new classification and flexible pricing proposal with the Postal Rate Commission for Confirm®. In addition, the Board approved funding for Phase 1 of the Postal Automated Redirection System and approved the 2001 Comprehensive Statement on Postal Operations.

In May, the Board approved the charter of the Audit and Finance Committee and authorized funding for the second phase of PostalOne.

At its June meeting, the Board approved the upgrade of a previously purchased building in Teterboro, New Jersey, to serve as the new Northern New Jersey Processing and Distribution Center. The Board also announced its support of a bipartisan proposal for postal reform legislation.

In July, the Board announced the award of a five-year contract to Ernst & Young L.L.P. to continue as its independent auditor to perform external auditing services for the Postal Service.

In August, the Board accepted the Postal Rate Commission's recommended decision regarding the mail classification and flexible pricing proposal for Confirm®. The Board also approved funding for a new Fairfax, Virginia, Main Post Office. Members postponed a decision on the 2002 borrowing resolution.

In September, the Board approved filings with the Postal Rate Commission for two targeted pricing initiatives: a new classification for periodicals and a negotiated service agreement with Capital One Financial Services, Inc. An Integrated Financial Plan for 2003 was presented to the Board, with projections of net income of \$600 million and debt reduction of \$800 million. The Board also approved the 2002 Borrowing Resolution. Funding was approved for purchase of 3,234 Mixed Delivery and Collection vehicles, the Automated Package Processing System, replacement of the outdated General Ledger Accounting System and completion of a project approved last year for development of space at the Arlington, Virginia, facility that houses the Office of the Inspector General. The Board also welcomed former Postmaster General Albert V. Casey, who received a recess appointment as a Governor of the Postal Service.

3. STRATEGIC PLANNING

The Office of Strategic Planning supports the Postmaster General, the Executive Committee, and the Board of Governors in the strategic planning process. The Office also provides support to Headquarters departments in the development of functional plans.

a. Government Performance and Results Act of 1993

The Government Performance and Results Act (GPRA) of 1993 requires agencies to develop and submit the following documents to Congress:

- (1) The Postal Service Five-Year Strategic Plan, FY 2001–2005, was developed and submitted to Congress in September 2000. The next update, as required by GPRA, will be published in September 2003, and will cover the period 2004–2008.
- (2) The Postal Service FY 2003 Annual Performance Plan was submitted to Congress on September 30, 2002.
- (3) The Postal Service 2002 Comprehensive Statement on Postal Operations includes the preliminary performance objectives, indicators, measures, and improvement targets for 2004.
- (4) The final FY 2004 Performance Plan will be published in September 2003 as part of the Five-Year Strategic Plan.
- (5) The Postal Service FY 2002 Performance Report, which tracks actual accomplishment of the targets, is included in the Postal Service 2002 Comprehensive Statement on Postal Operations.

b. Postal Service Transformation Plan

The Postal Service Five-Year Strategic Plan, FY 2001–2005, identified trends in the postal business environment that would make it increasingly difficult for the Postal Service to continue to achieve its mission of providing universal service at affordable rates. The General Accounting Office (GAO) identified the 32-year old structural and regulatory framework of the Postal Service, created by the Postal Reorganization Act of 1970, as too inflexible for the expected future postal environment and placed the Postal Service on the GAO High Risk list in the spring of 2001. Congress asked the Postal Service to address the issue of transformation, reach out to all stakeholders, and then outline alternatives for structural change. To prepare the Postal Service Transformation Plan and facilitate transformation efforts, the Postmaster General created a specialized team within the Office of Strategic Planning.

The Postal Service published the *Outline for Discussion: Concepts for Postal Transformation* on September 30, 2001, as part of its effort to obtain feedback about the future of the Postal Service from the public, mailers, the mailing industry, Postal Service employees, and other stakeholders. In April 2002, the Postal Service submitted its Transformation Plan to Congress. The document outlined three alternatives to the current model. Each would require structural legislative reform:

- (1) Government Agency. An entity focused on providing essential services not adequately provided in the market and supported by government subsidies.
- (2) Privatized Corporation. A business entity with private shareholders.
- (3) Commercial Government Enterprise. A government-owned enterprise that would operate more commercially in the market to provide postal and related services.

The Postal Service recommended the third model, Commercial Government Enterprise, as the option that will best allow integration of the postal system into the future economy while preserving the ability of the Postal Service to fulfill its mission of universal service.

The Postal Service Transformation Plan also included specific strategies to transform the Postal Service in the absence of legislative and regulatory change. Four overarching strategies focused on: growing volume through enhancing the value of customers' products and services; reducing costs through improved operational efficiencies; emphasizing a performance-based culture among the 750,000 employees; and enabling change through improved financial, technological, security, and privacy support systems. Numerous substrategies to implement the

overarching strategies were outlined in four appendices of the Postal Service Transformation Plan. The Office of Strategic Planning is monitoring the progress of this implementation through detailed project plans approved by the Postal Service Executive Committee.

c. Strategic Analysis and Support

The Office of Strategic Planning provided specific support for the development of functional plans, such as the Strategic Technology Plan and the Supply Chain Management Plan. The Office supported the Advanced Leadership Program (ALP) with the development of strategic case studies and the Strategic Direction Seminar, designed for ALP graduates — the next generation of Postal Service leaders who currently support senior management. The Office conducted special studies, in consultation with other functions, on such subjects as electronic diversion, future business environments and strategic policy issues. The Office also assisted in the strategic outreach program with key stakeholders by supporting efforts such as the Mailing Industry Task Force.

4. Performance and Field Operations Support Group

The Performance and Field Operations Support group is responsible for the Breakthrough Productivity Initiative (BPI). It identifies requirements, planning, development, and implementation of standardized field operations procedures and information systems. This group also manages the development and deployment of all operations budgets and goals, and is responsible for reviewing and tracking virtually all components of operations performance. There are four departments within this group:

- (a) The Operations Budget and Performance Management department is responsible for the deployment, tracking, analysis, and reporting on Headquarters Operations and Field Operations processes that support the goals, sub-goals, and targets for the voice of the business and voice of the customer.
- (b) The Field Operations Requirements and Planning department identifies and develops field requirements for standardized processes and information systems to improve productivity, reduce costs, or improve service for mail processing, delivery, retail, and customer service operations. This department ensures that efforts to standardize field operational processes and information systems support the goals of the Corporate Flats Strategy and the Postal Service Transformation Plan.

- (c) The Field Operations Standardization Development department is responsible for standardized processes for delivery, customer service and retail operations. These processes are designed to improve productivity and/or service levels. Based on requirements provided by the manager of Field Operations Requirements and Planning, full business solutions are developed, tested, and finalized, including national implementation.
- (d) The Field Operations Standardization Implementation department is responsible for field implementation of standardized processes for mail processing, which includes tracking, analysis, and reporting on programs such as the Automated Flat Sorting Machine (AFSM) 100, and the Low Cost Tray Sorter. Members from this department support the BPI Labor Distribution Code (LDC) 17 Review Process in developing workload measures for the standardized recording of work hour activities at mail processing facilities. These BPI standardized processes enable the Postal Service to develop specific measures of performance and national targets, and support the transformational goal of better aligning workhours to workload.

5. DIVERSITY

a. General

The Postal Service faces the challenges of continuing to grow the business and developing new technology while rapid changes in demographics, attitudes, and economics continue to reshape our society. Diversity Development plays a major role in helping the Postal Service adjust to these changes, continuing as a high-performing service provider that fully develops and capitalizes on its diverse human potential.

Overall, Diversity Development's mandate is to ensure that all Postal Service employees, customers, and suppliers are respected, understood, and included. The Postal Service must be a learning organization, where diversity serves as a catalyst for greater innovation and exceptional levels of customer service and operational efficiency.

In 2003, Diversity Development will focus on three principal strategies: investing in our workforce; strengthening succession planning; and building the business. In an effort to align our strategies with operations and effectively respond to the challenges posed by the Postal Service's transformation imperatives, Diversity Development will implement the following four initiatives:

- (1) Increase representation of all groups at all levels in the organization.
- (2) Achieve an environment free of harassment and discrimination.
- (3) Enhance workforce management.
- (4) Strengthen customer and community relations.

These initiatives will help the Postal Service honor the diversity of its employees, customers, and suppliers in a way that allows the Postal Service to develop people, pursue reform, manage costs, grow revenue, and improve service.

b. National Diversity Recognition Program

The Postal Service National Awards Program for Diversity Achievement recognizes individuals and teams that demonstrate exemplary efforts to encourage and promote diversity within the organization.

In 2002, there were more than 1,280 nominations in the following categories: Individual, Team, Leadership, Partnership, and the Dot Sharpe Lifetime Achievement Award. In addition, the Postmaster General's Excellence in Diversity award recognizes individuals who help advance the vision of diversity within the Postal Service.

These Diversity awards serve as inspiration to employees and managers to help ensure that the Postal Service remains an inclusive and diverse organization, which is the key to attaining strategic organizational goals.

c. Employment of Individuals with Disabilities

The Postal Service uses regular competitive procedures in selecting individuals with disabilities for employment. Individuals with severe disabilities receive noncompetitive employment consideration through referrals from individual state departments of vocational rehabilitation or the Department of Veterans Affairs. In 2002, the Postal Service's career workforce included 46,467 employees with reported disabilities and 7,021 employees with targeted disabilities.

Equal Opportunity Publications hailed the Postal Service as one of the top 20 government agencies for individuals with disabilities. Careers and the Disabled Magazine also gave the Postal Service an outstanding employer award. Each year, the Postal Service submits an Affirmative Employment Plan and an Accomplishment Report for Individuals with Disabilities to the Equal Employment Opportunity Commission (EEOC). The Affirmative Employment Plan is disseminated to Postal Service field installations where each installation head is responsible for its implementation.

d. Veterans' Employment

The Postal Service is one of the largest employers of veterans and disabled veterans in the nation. At the end of the year, the Postal Service employed some 223,796 veterans, including 73,899 who are disabled because of injuries received while in uniform. Of that number, 18,529 have disabilities of 30 percent or more. The Postal Service prepares an annual Accomplishment Report and Plan Certification for disabled veterans and submits it to the Office of Personnel Management (OPM).

e. Affirmative Employment Program

The Affirmative Employment Program (AEP) provides national guidance and administers the Affirmative Employment Plan of the Postal Service. During 2002, Diversity Development implemented the following initiatives to encourage the retention of a diverse Postal Service workforce:

- (1) Streamlined and standardized the AEP Multi-Year Plan Report process in alignment with the new organization structure. With concurrence of the EEOC, the number of reports required for the AEP Multi-Year Plan dropped from 372 to 96.
- (2) Emphasized identifying and removing barriers, and providing technical guidance at the national level to improve the AEP planning process.
- (3) Initiated automated reports, established tracking and development of web-based AEP-related training for rollout in early 2003.
- (4) Completed and submitted the AEP Multi-Year Plan 2002–2005 to the EEOC. These reports addressed the next three years of the Affirmative Employment Plan for handling sexual harassment, discrimination complaints, recruitment and hiring, employee development, promotions, separations, retention, program evaluation, and workforce representation.
- (5) Published and distributed the Affirmative Employment Plan and Accomplishment Report for individuals with disabilities to Postal Service management and the EEOC.
- (6) Published and distributed the Affirmative Employment Plan and the Accomplishment Report for disabled veterans to Postal Service management and OPM.
- (7) Published Postal Service policy statements in the Postal Bulletin on the following topics: diversity; affirmative employment; equal employment opportunity; the National Women's Program; and sexual harassment.

- (8) Enhanced and revised the Affirmative Employment Activity Report, which is used to monitor field activities.

A new on-site AEP evaluation process was implemented in 2001, as an internal review procedure to measure, assess, and verify progress toward achieving a discrimination-free workplace. In 2002, an on-site evaluation team reviewed diversity and AEP achievements at 32 sites in performance clusters with the greatest challenges. The team's reports included best practices and recommendations for improvement.

The Diversity Reporting System (DVRS) provides detailed statistical reports on Postal Service employees that include profiles by Grade level groupings, new hires, promotions, separations, development activities, and trends. Statistical information from DVRS is provided by request to the GAO, EEOC, Congress, and other external and internal customers.

The Postal Service also administers the National Hispanic Program, the National Women's Program, and the Special Emphasis Program. These programs focus attention on the special needs, obstacles, and concerns of current and future employees who are the subject of these programs. Major accomplishments are described below:

1. National Hispanic Program

The National Hispanic Program, through its field network, continued to address the issues of under-representation of Hispanics in the Postal Service and the goals of the organization.

The National Hispanic Program sponsored or attended recruitment and community outreach activities nationwide. Program specialists participated in seminars on test-taking and the correct preparation of Postal Service Form 991, Application for Promotion or Assignment. They also formed a recruitment network for the following developmental programs: Associate Supervisor Program (ASP), Career Management Program (CMP), and Advanced Leadership Program (ALP).

Although 7.6 percent of ASP participants (Level 1–14) were Hispanic, they represented 9.6 percent of the training graduates. Hispanic participation in CMP (Level 15–18) was 15.3 percent, also exceeding the 6.3 percent of Hispanics in the applicant pool. Hispanic representation in ALP (Level 22–above) was 5 percent versus the 5.6 percent of potential participants, representing near parity.

In support of corporate goals, the National Hispanic Program either sponsored or actively participated in several national events that involved the Hispanic

National Bar Association, National Organization for Mexican American Rights, the National Hispanic Leadership Institute, Hispanic Employment Program Managers, and the U.S. Hispanic Chamber of Commerce. These outreach activities have helped develop our employees, introduced the Postal Service to these organizations and communities, and established the Postal Service as a leader among businesses in addressing the needs of the Hispanic community.

The National Hispanic Program through its field network and partnerships with Hispanic organizations and associations, and community relationships, were instrumental in strengthening loyalty to the Postal Service brand in the Hispanic marketplace. They assisted other functional areas in promoting awareness of Postal Service products and services, and have provided resources for producing Spanish language materials that help bridge communications between the Postal Service and the Hispanic community.

2. National Women's Program

The Postal Service continued pursuing programs and actions to improve the participation and success of women in all levels of its workforce. These efforts are designed to help identify and remove barriers that have resulted in under representation of women in various programs, actions and job levels.

National Women's Program efforts and events take place both at Headquarters and in performance clusters in the field. Major accomplishments include:

- (a) Revision and publication of the National Women's Program policy statement.
- (b) The Family Financial Planning Expo that assisted all employees with personal financial planning.
- (c) The updated National Women's Program website with information on recruitment and career development and hyperlinks to websites of particular interest to women.

The National Women's Program will continue to track, analyze, and report on women of all races in the Postal Service workforce. When data suggests women face barriers in recruitment, promotion and retention, the Program will take actions to eliminate those barriers.

More broadly, the National Women's Program will pursue programs that:

- (a) Prepare women with skills and knowledge to be productive and successful in the Postal Service;
- (b) Identify opportunities for women to develop their careers and themselves within the Postal Service; and

- (c) Ensure a Postal Service culture that values the abilities and participation of everyone.

3. Special Emphasis Program

The Special Emphasis Program focused on recruitment, retention, and promotional opportunities for African Americans, American Indians and Alaskan Natives, Asian Americans, Pacific Islanders, people with disabilities, veterans, and white males. White females and Hispanics are addressed by the Women's Program and the National Hispanic Program. Major accomplishments of the Special Emphasis Program in 2002:

- Developed a Multi-Year Strategic Plan and update for the White House Initiative on Asian Americans and Pacific Islanders, per Executive Order 13216.
- Developed employee career conferences as part of the White House Initiative on Asian Americans and Pacific Islanders to promote an inclusive work environment.
- Developed four diversity publications to educate the public on historic figures featured on stamps: Publication 354, African Americans on Stamps; Publication 512, Women on Stamps; Publication 154, People and Places of the Pacific on Stamps; Publication 295, Hispanic People and Events on U.S. Postage Stamps.
- Partnered with national special-emphasis organizations to increase multicultural access to Postal Service employment opportunities, products, services, and supplies.

The Federal Asian Pacific American Council recognized the Postal Service for its commitment to the Asian community.

F. NATIONAL SEXUAL HARASSMENT PREVENTION

The Postal Service is committed to increasing awareness and preventing sexual harassment in the workplace. During 2002, the Postal Service reissued its policy statement on sexual harassment and revised Publications 552, Manager's Guide to Understanding Sexual Harassment, and Publication 553, Employee's Guide to Understanding Sexual Harassment. This policy clearly:

- Prohibits sexual harassment in the workplace.
- Provides examples of behavior that constitute sexual harassment.
- Directs employees who have witnessed or experienced an incident of sexual harassment to report it to a manager, supervisor, union official,

CHAPTER 1 COMPLIANCE WITH STATUTORY POLICIES

an Equal Employment Opportunity counselor, or the manager of Human Resources.

- Explains the procedures to report complaints.
- Protects confidentiality to the extent possible.
- Requires all managers and supervisors to respond promptly and ensure that a thorough investigation is conducted and that the harassment and/or inappropriate conduct do not happen again.
- Provides for the use of initial Management Inquiry Process materials available in Publication 552, Manager's Guide to Understanding Sexual Harassment.
- Prohibits retaliation against employees who make a claim, report inappropriate conduct or provide evidence in any investigation.

The following channels of communication were used to disseminate the policy, increase awareness, and prevent sexual harassment within the Postal Service:

- Publication 553, Employee's Guide to Understanding Sexual Harassment, was mailed to every employee's home address.
- Publication 552, Manager's Guide to Understanding Sexual Harassment, was mailed to the home address of every manager, postmaster, and supervisor.
- In February 2002, "Sexual Harassment Awareness and Prevention" was the subject of a mandatory service talk, as part of the Workplace Environment Improvement (WEI) Strategic Focus 2002 training for all craft employees.
- USPS News Link, February 26, 2002, announced the posting of updated Publication 552, and Publication 553 on the Postal Service intranet at <http://blue.usps.gov/cpim>.
- In February 2002, the vice president of Diversity Development issued Sexual Harassment Toolkits containing five training videos, scripts, employee handbooks, leader's guides, Posters 21-B, Varieties of Sexual Harassment, and 21-C, Sexual Harassment — It's Illegal!, and Publication 552 and Publication 553. These training materials were distributed to all field Diversity Development specialists, Diversity Development coordinators, managers of Training and area managers of Human Resources.
- Diversity Talk, April 2002, was announced on the Postal Service Training Network (PSTN). PSTN broadcast the 2002 sexual harassment training videos three times a month until the end of the fiscal year. The videotapes are also available through the Material Distribution Center in Topeka, KS.

- Diversity Talk, July 2002, outlined what a postmaster, manager, and supervisor must do to ensure there are adequate policies and procedures to prevent sexual harassment and address related complaints.
- Diversity Talk, September 2002, provided tips on "How to Effectively Address Sexual Harassment Complaints."

The Postal Service has taken the following measures to ensure employees know and understand the policy on sexual harassment:

- For 2002, training consisted of a one-hour module for those employees not trained in 2000–2001.
- Periodic service talks were conducted nationwide to remind employees about the Postal Service policy on sexual harassment and the costly effects of inappropriate behavior.
- The Associate Supervisor Program and new employee orientation included segments on sexual harassment awareness and prevention.
- The Office of the General Counsel continued to offer interactive intranet training for supervisors and managers on preventing sexual harassment activity
- Postal Service attorneys, Diversity Development staff, and trained facilitators provided briefings and training to groups of employees upon request.

Since education is the key to accomplishing the goal of a workplace free from sexual harassment and inappropriate behavior, Diversity Development will continue the following awareness and preventive measures:

- Conduct and document training so that employees understand what constitutes sexual harassment, its repercussions, and what they can do to prevent sexual harassment and inappropriate behavior.
- Review statistical data from all sources (VOE survey, EEO complaints, etc.) and follow up in areas where intervention and remedial training are required.
- Revise pertinent policies and other directives to reflect up-to-date initiatives.
- Distribute new sexual harassment prevention training resources and posters nationwide.
- Develop and disseminate consistent messaging for Postal Service employees and customers through all available modes of communication.

B. SERVICE TO SMALL OR RURAL COMMUNITIES

(39 U.S.C. 101(B))

In enacting the Postal Reorganization Act, it was the specific intent of Congress that residents of both urban and rural communities have access to an effective Postal Service. To deliver the nation's mail, the Postal Service has established a nationwide network of facilities, centralized delivery units, and rural and highway contract delivery routes.

A change in community postal needs or the loss of suitable facilities may lead to the closing of a Post Office or its consolidation into a station, branch, or contract Post Office. Proposals to discontinue or consolidate a Post Office are carefully evaluated on a case-by-case basis consistent with the statutory criteria found in 39 U.S.C. 404(b). Formal administrative procedures have been established to review discontinuance proposals and to ensure community input and discussion. A discontinuance proposal may be appealed to the independent Postal Rate Commission. When an independent Post Office is closed or consolidated, customers are provided with comparable service.

On April 5, 2002, the Postal Service lifted the self-imposed Post Office closing moratorium that had been in effect since March 16, 1998. In late 2002, the Postal Service began to finalize the discontinuance studies on approximately 550 Post Offices in which operations were suspended because of emergency reasons, but that were backlogged prior to the moratorium. Most of these will be processed in 2003. In 2002, the Postal Service closed or consolidated five Post Offices, 76 community Post Offices, four classified branches, and six classified stations. There were no appeals to the Postal Rate Commission.

C. EMPLOYEE COMPENSATION AND CAREER ADVANCEMENT

(39 U.S.C. 101(C))

1. COLLECTIVE BARGAINING

The Postal Service has nine collective bargaining agreements with seven unions covering approximately 726,000 employees. Negotiations with Postal Service unions cover a full range of topics involving wages, benefits, and conditions of employment. No agreements expired in 2002.

The next round of collective bargaining was expected to begin with the negotiations for a successor agreement to the 2000–2003 agreement with the American Postal Workers Union, AFL-CIO (APWU) which was to expire on November 20, 2003. However, a two-year contract extension was ratified late in calendar year 2002 by APWU members. The agreement provides for two additional general wage increases of 1.3 percent. The first is effective on November 15, 2003 and the second on November 27, 2004. The now five-year agreement also calls for four additional cost-of-living increases under the existing COLA formula, with two payments in 2004 and two in 2005, both based on January and July CPI-W trigger months. Grade 10 and grade 11 electronic technicians receive a one-grade upgrade effective November 29, 2003. Grade 4 computer forwarding system clerks will receive a one-grade upgrade effective November 13, 2004. The upgrades will be based on a step-to-step mechanism with credit for waiting-period time already served. Eligible employees will receive two 2.5 percent Uniform Program increases, the first in November 2003 and the second in November 2004. The parties also signed a Memorandum of Understanding that allows for two additional bids (applying for vacant positions) during the contract.

An interest arbitration award was issued on February 3, 2002, which set the terms of a new four-year collective bargaining agreement covering approximately 117,000 rural letter carrier employees represented by the National Rural Letter Carriers' Association (NRLCA). The agreement is for the period November 21, 2000, through November 20, 2004, and provides general wage increases of 1.2 percent effective November 18, 2000; 1.8 percent effective November 17, 2001; 1.4 percent effective November 16, 2002; and 1.2 percent effective November 15, 2003. The NRLCA and the Postal Service also could extend the labor agreement for a fifth year if the parties reach a settlement on the economic provisions, based

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on the comparable year in either the APWU or National Association of Letter Carriers (NALC) national agreements. In addition to the general wage increases, the interest arbitration panel chaired by neutral arbitrator John Calhoun Wells provided for the continuation of the current cost-of-living adjustment (COLA) formula except that in lieu of COLA payments for the first year of the agreement, eligible career employees received a one-time lump sum cash payment of \$499. Arbitrator Wells also awarded two pay adjustments, one of which is, in effect, the equivalent of a one-pay-level upgrade. The other is a \$300 wage increase. Those two pay adjustments are in exchange for improved productivity in rural carrier standards. The standards involve flat and letter mail casing rates, the strapping out of mail, and the definition of letter-size mail. Also of note, the Postal Service secured a national mail count beginning February 28, 2002, and ending March 13, 2002. The implementation of the new productivity standards was effective on May 4, 2002.

Negotiations between the Postal Service and NALC began in August 2001 for a successor to the collective bargaining agreement that was to expire on November 20, 2001. Productive discussions took place throughout the fall, with the parties reaching agreement to extend the discussions past contract expiration and into 2002. The motivating factors to extend the discussions were the September 11 terrorist attacks and the anthrax threats, which consumed much of the attention of the negotiators. Negotiations successfully concluded in April, and a five-year collective bargaining agreement was signed June 26, 2002. The agreement, which covers the years 2001–2006, provides for general wage increases of 1.8 percent on November 17, 2001, 1.5 percent on November 16, 2002, 1.2 percent on November 15, 2003, 1.3 percent on November 27, 2004, and 1.3 percent on November 26, 2005. The agreement continues the current COLA formula and payment schedule, except that in lieu of COLA payments for the first year of the contract, eligible employees would receive a one-time cash payment.

In addition to negotiating many work rule changes, the parties rewrote Article 15, Grievance-Arbitration Procedure, replacing an old process that no longer met the parties' needs. The new process is faster, more efficient, and focuses on addressing and resolving disputes at the lowest levels of the organization. This was the first major restructuring of the grievance-arbitration procedure in more than 20 years. The agreement covers approximately 234,000 employees represented by the NALC.

Negotiations with the National Postal Mail Handlers Union, AFL-CIO (NPMHU), which represents approximately 59,000 mail handlers for a successor to the collective bargaining agreement that expired on November 20, 2000, reached an impasse. The parties resumed discussions aimed at resolution of the dispute and reached a successful conclusion of negotiations. The four year agreement was signed on April 10, 2002. The new agreement covers the years from 2000–2004 and contains the following general increases: November 18, 2000, 1.3 percent; November 17, 2001, 1.9 percent; November 16, 2002, 1.5 percent; and November 15, 2003, 1.3 percent. The agreement continues the current COLA formula and payment schedule for career employees, except that in lieu of COLA payments for the first year of the contract, eligible career employees were to receive a one-time lump sum cash payment of \$499.

Collective bargaining agreements between the Postal Service and certain smaller bargaining units were completed during 2002. The Postal Service reached an agreement with the National Postal Professional Nurses (NPPN) following post-fact finding discussions. The new 1999 USPS-NPPN Agreement was effective on April 11, 2002, and will continue through August 20, 2004. A four-year agreement was reached with the APWU on the 2000 Operating Services/Engineering, Facility Services Agreement, which was effective August 10, 2002, and will continue until November 20, 2004. A four-year agreement was also reached with the APWU on the 2001 Information Technology/Accounting Service Center Agreement, which was effective August 24, 2002, and continues through January 20, 2005.

The Postal Service and the NALC will publish the fourth edition of the USPS-NALC Joint Contract Administration Manual, which will be distributed to every city delivery unit in the system in the fall of 2002. First negotiated and published in 1998 and updated each year thereafter, this contract guide has been widely used in the field, and it has been crucial to the parties' goals of reducing the incidence of workplace disputes.

The Postal Service and the NPMHU have completed the third full year of their test procedure which eliminates the third step of the grievance procedure at selected sites. In addition, the parties continue to make progress in completing the Contract Interpretation Manual, expected to be released in 2003. Once again they co-hosted the annual Quality of Work Life Conference for the fifth consecutive year.

2. CONSULTATION WITH MANAGEMENT ASSOCIATIONS

In accordance with 39 U.S.C. §1004, a program of consultations was conducted throughout the year with each of the management organizations representing postmasters, managers, supervisors, and other non-bargaining employees. These sessions, which provided an opportunity to participate directly in the planning, development, and implementation of programs and policies impacting the more than 80,000 managerial employees in the field, included the national leadership of the National Association of Postal Supervisors, the National Association of Postmasters of the United States, and the National League of Postmasters of the United States. In addition to regular program consultation, Executive and Administrative Schedule (EAS) pay consultations were held with all of the management associations in early 2002. The principle of pay-for-performance continued to be the underlying theme of these sessions as the organization collaborated with the associations in establishing a fair and equitable compensation program that balances individual and corporate needs with our mandate to provide comparable pay with the private sector. Each management association will continue to be involved in providing representatives to participate in the development of new programs at the Headquarters and field levels as members of work teams and national task forces, and take an active role in working with various Headquarters-sponsored functional teams to recommend necessary improvements to current policies and programs to move the organization forward.

3. PERSONNEL

a. Postal Career Executive Service

There were 895 individuals in the Postal Career Executive Service (PCES) ranks at the close of 2002. Of this total, 748 individuals held PCES-I positions. The remainder (other than officers) served in Executive and Administrative Schedule (EAS) positions. There were 39 PCES-II officers in the Postal Service at the end of the fiscal year. The makeup of the PCES officers and executives is representative of the Postal Service's diverse workforce.

b. Succession Planning

Succession planning is the deliberate and systematic effort by the Postal Service to ensure leadership continuity and build talent from within the organization. The objectives are to identify individuals who can move into executive positions, to develop people for corporate needs, and to foster diversity among the leadership

ranks. Individuals are identified as potential successors based on their leadership skills, functional and management expertise, and performance results. Succession planning has been designed to place the right people in the right jobs. After completing the eighth full year of succession planning, fewer than 1 percent of executive vacancies were filled by outside hires, 12 percent were filled by promotions of EAS employees to PCES, and the remaining 87 percent were filled from within the executive ranks.

c. New Intern Programs

The Management Intern Program and Professional Specialist Intern Program were implemented in 2002. These two-year developmental programs are designed to attract and develop outstanding internal and external candidates who possess graduate degrees. The Management Intern Program is field-based and prepares interns to assume key mid-level operations positions. The Professional Specialist Intern Program is targeted at identifying Headquarters positions critical to the success of the organization. Several functions recruited for positions in the areas of economics, psychology, operations research, market research, network operations, information systems, and compensation.

In 2002 there were 989 postal and non-postal applicants to the program of which 434 attended an assessment center. Eighty-seven finalists from the assessment center were interviewed by the Areas. Twenty-two successful candidates were hired (11 postal and 11 non-postal) and began the program in June 2002. The Professional Specialist Program recruited for 14 positions in 2002. Recruitment for the Management Intern Program and Professional Specialist Intern Program began in October 2002.

d. Equal Employment Opportunity

The Office of Equal Employment Opportunity (EEO) and the REDRESS® (Resolve Employment Disputes, Reach Equitable Solutions Swiftly) program achieved another successful year in 2002. The number of EEO pre-complaint counselings in the Postal Service continued to decline in 2002, due in large part due to the efforts put forth by field EEO professionals. This is the fourth consecutive year these counselings have decreased.

The use of the REDRESS mediation program, which incorporates non-Postal Service contractors as mediators, contributed to increased dispute resolution, further diminishing the need for elevation of complaints to the formal level. Although the REDRESS program has proven to be highly effective, traditional EEO counseling is still being offered as an alternative to individuals

seeking pre-complaint counseling. Both forms of EEO assistance seek to offer individuals recognition and an opportunity to express their views and differences.

In 2002, the participation rates in the REDRESS program, for those seeking pre-complaint counseling, rose to over 77 percent nationally, an increase of 1 percent over 2001. Successful resolution of disputes that go through mediation is nearly twice the rate of resolution of disputes that remain in the traditional counseling process. During 2002, over 10,000 EEO disputes were mediated through the REDRESS program, ending the year with a 75 percent closure rate.

The REDRESS II program was implemented during 2002, bringing transformative mediation to the formal complaint process through the hearing stage. The success of this program is expected to be even greater than its predecessor, as it encourages employees to deal with conflict in the workplace, understand the differences of others, and resolve misunderstandings.

e. Combined Federal Campaign

The Postal Service joins other federal agencies in the Combined Federal Campaign drive each fall. In 2002, Postal Service employees nationwide pledged a total of \$40,089,462.66 in payroll deductions to the charities of their choice. The average gift was \$196.

f. Injury Compensation

In 2002, the Postal Service had an increase in workers' compensation cash outlays of approximately \$65.7 million (9.5 percent) over 2001, for a total cash payout of \$759.8 million. Total paid compensation claims increased by 2,402 (8.6 percent), and total medical claims increased by 2,849 (2.3 percent).

The Postal Service's cost control strategy was directed toward efforts to contain workers' compensation costs and continued efforts to manage disability cases. The National Reassessment Initiative is reviewing all injured employees in limited duty and rehabilitation positions to ensure that they are properly classified according to their limitations. The initial pilot site was Greensboro, NC. Of 243 limited duty employees reviewed, 50 were immediately returned to full duty. Of 106 rehabilitation employees reviewed, 89 were reclassified as productive employees.

The Postal Service has entered into an agreement with the Office of Workers' Compensation Programs (OWCP) to outplace injured employees who cannot be accommodated within the Postal Service into private sector assignments.

The Postal Service also has a pilot program agreement with OWCP, and First Health Corporation, the nation's largest preferred provider organization, to help reduce workers' compensation medical costs. The pilot was operational in four OWCP district offices, and was expanded nationwide July 1, 2002. Since inception, the pilot has returned over \$316,000 to the Postal Service and avoided over \$1 million in duplicate medical bills.

The Postal Inspection Service continued its efforts to investigate fraud associated with Postal Service employees' compensation claims. As a proactive measure to identify and eliminate fraudulent claims earlier in the process, postal inspectors' efforts in the past fiscal year emphasized front-end work, formally called continuation-of-pay (COP) investigations. This resulted in \$102 million through long-term cost avoidance and civil settlements and \$6 million in front-end savings, totaling \$108 million in cost savings from 2001. Additionally, inspectors identified 378 individuals as defrauding the workers' compensation program and 45 employees were arrested.

4. COMPENSATION AND BENEFITS

a. Pay Comparability

1. Bargaining Unit Employees' Pay and Benefits

The average pay and benefits for career bargaining unit employees (excluding corporate-wide expenses) is \$54,225 per work year (tentative).

In an attempt to achieve compensation rates comparable to those in the private sector, negotiations between the Postal Service and its unions continue to apply the principle of moderate restraint set forth in past interest arbitration awards for those units that have compensation that exceeds private sector levels.

2. Non-bargaining Unit Employees' Pay and Benefits

Pay for supervisors, postmasters, and other nonbargaining staff employees generally meets or exceeds private sector levels. It also provides an adequate and reasonable differential between first-line supervisors and bargaining unit clerks and carriers.

In 2002, a new pay consultation with management associations continued the focus on market-based and performance-driven pay systems. The salary structure was increased to accommodate merit awards that will recognize 2002 and 2003 performance. The Pay for Performance Program (formerly the EVA Variable Pay Program) for EAS employees was discontinued. Reserves built up from the six years of the incentive program were paid as scheduled in October 2002. Pay

consultations with the management associations will occur in 2003 for development of a new incentive plan for 2004.

3. Executive Pay and Benefits

Due to the limit imposed on PCES salaries by the Postal Reorganization Act, pay and benefits for Postal Service officers and many executives do not meet private sector comparability standards. During 2002, the average salary for Postal Service officers was \$152,000. The average executive salary was \$111,000.

In 2002, the Pay for Performance Program (formerly the EVA Variable Pay Program) for PCES officers and executives was discontinued. Reserves built up from the six years of the incentive program were paid as scheduled in October 2002. A new incentive plan will be implemented for 2003 consistent with the Postal Service Transformation Plan objective to build a performance-driven culture.

4. Merit Pay Performance Evaluation

In 2002, the Postal Service continued to emphasize the importance of the Merit Performance Evaluation process. This process evaluates and rewards the performance of professional and managerial personnel. The process employs indices and measurements tied to the work unit's mission when establishing employee objectives for the year. These indices and measurements are used to assess an employee's success in meeting these mutually agreed-upon objectives. As with last year's program, the Merit Performance Evaluation process continues to be closely aligned with the CustomerPerfect!™ philosophy. It provides a mechanism to link employee contributions to corporate goals.

The Postal Service Transformation Plan calls for the continuation of the CustomerPerfect! management cycle of Establish, Deploy, Implement, and Review. Goals developed under this process will serve as the foundation for a new National Performance Assessment System that will have employee line-of-sight performance measures throughout the organization. Officers and executives will be evaluated under the new system beginning in 2003, and nonbargaining employees will begin in 2004.

b. Leave Programs

Postal Service employees are provided both sick and annual leave at the same rate as other federal sector employees. However, Postal Service employees have a higher annual leave carryover limit than their federal

sector counterparts. Postal Service employees used an average of 9.88 days of sick leave per career employee during 2002 (tentative).

Earned annual leave may be donated to other career or transitional Postal Service employees who have exhausted their own leave and have a serious health problem.

Under the Family and Medical Leave Act, eligible employees may take up to 12 weeks off from work for covered conditions. Postal Service employees may use annual leave, sick leave, or leave without pay for covered conditions in accordance with applicable collective bargaining agreements and current leave policies.

Postal Service career nonbargaining unit employees and some bargaining unit employees can participate in a leave exchange program through which a portion of annual leave that would otherwise be earned in the following leave year can be exchanged for cash.

The Postal Service allows the use of 80 hours of accrued sick leave for dependent care under a policy available to all career employees.

c. Health Insurance

Health care contributions totaled \$3.7 billion or 7.1 percent of the Postal Service's total pay and benefits during 2002.

The Postal Service continued to pay most of the premium cost of employee health benefit coverage. Career employees are automatically enrolled to pay their share of health benefit premium contributions with pretax payroll deductions.

Under the Omnibus Budget Reconciliation Act of 1990, the Postal Service is required to fund the annuitants' share of the Federal Employee Health Benefit premiums. The cost of funding the health care benefits for postal annuitants and their survivors in 2002 was \$987 million.

d. Life Insurance

The Federal Employees Group Life Insurance program provides life insurance coverage for Postal Service employees. The Postal Service assumes the full cost of basic life insurance for eligible employees. During 2002, Postal Service costs for employee life insurance were \$200.7 million and the cost of funding life insurance for postal annuitants and their survivors was \$7.4 million.

e. Retirement Systems

Postal Service career employees, like federal career employees, are covered by one of three retirement systems administered by the U.S. Office of Personnel Management.

At the end of 2002, there were 751,697 career employees covered by a federal retirement program. Of this total, 510,237 employees (67.9 percent) were covered by the Federal Employees Retirement System (FERS); 230,632 employees (30.7 percent) were covered by the Civil Service Retirement System (CSRS); 10,828 employees (1.4 percent) were covered by CSRS Offset.

CSRS is a defined benefit retirement system. Annuity benefits are based on an employee's high-three average salary and years of service. CSRS Offset is similar to CSRS but requires Social Security contributions. Upon Social Security eligibility, the CSRS annuity is reduced (offset) by any Social Security benefit resulting from periods of CSRS Offset service, to produce a benefit equivalent to what would have been received under CSRS.

FERS is a retirement system with both defined benefit and defined contribution components. Under FERS, employees receive retirement benefits from a federal retirement annuity, Social Security, and the Thrift Savings Plan. The FERS annuity benefit, while also based on an employee's high-three average salary and years of service, produces a smaller benefit than CSRS does.

The Postal Service and career employees make retirement contributions to the Civil Service Retirement and Disability Fund. For 2002, CSRS employees contributed 7.0 percent of basic pay to the Fund. FERS and CSRS Offset employees contributed 0.8 percent of basic pay to the Fund and 6.2 percent of gross pay to Social Security (up to the Social Security wage maximum).

f. Thrift Savings Plan

All career employees may participate in the Thrift Savings Plan (TSP), which is administered by the Federal Retirement Thrift Investment Board. The rules for TSP participation differ depending on the employee's retirement system. For FERS employees, the Postal Service contributes 1 percent of basic pay to TSP, fully matches employee contributions up to 3 percent of basic pay, and matches one-half of employee contributions from 3 to 5 percent of basic pay. In 2002, FERS employees could contribute up to 12 percent of basic pay to TSP on a tax-deferred basis, subject to IRS maximum limits. The Postal Service does not match CSRS or

CSRS Offset employee contributions to the TSP. In 2002, CSRS employees' contributions were limited to 7 percent of basic pay. At the end of 2002, 426,303 FERS employees and 139,676 CSRS and CSRS Offset employees participated in TSP.

g. Flexible Spending Accounts

Employees continue to take advantage of Flexible Spending Accounts (FSAs) to pay for certain health care and dependent care expenses with contributions made through pretax payroll deductions. FSAs were first offered in 1992 to certain nonbargaining unit employees and now include all employees. In 2002, 60,491 employees were enrolled in health care FSAs (a 9.4 percent increase from 2001), with an average contribution of \$1,425. In 2002, 5,588 employees were enrolled in dependent care FSAs (a 2.7 percent decrease from 2001), with an average contribution of \$2,689. The projected 2002 savings for the Postal Service resulting from the FSA program is approximately \$3.1 million (net of administrative expenses). Employees experience tax savings as well, which vary according to the individual's contribution amounts and marginal tax rates.

5. EMPLOYEE DEVELOPMENT

Employee Development has two main areas of responsibility: Product Development and Evaluation, which designs, develops, and evaluates curricula; and Delivery, which operates at the William F. Bolger Center for Leadership Development, Potomac, MD, and at the National Center for Employee Development, Norman, OK. Both centers are self-contained campuses with classrooms, conference facilities, housing, dining and related services. There are 85 postal employee development centers (PEDCs) throughout the nation that support operational needs by providing local training assistance to employees.

While traditional classrooms, on-the-job instruction, and correspondence courses are still prevalent, delivery platforms increasingly include satellite networks, video-tape, computer-based interactive programs, web-based instruction, or combinations of these channels.

a. Management Training

With the continuation of the Associate Supervisor Program (ASP), Career Management Program (CMP), and Advanced Leadership Program (ALP), the training and development needs of supervisors and managers at all levels of the organization are being met.

The 16-week ASP for first-line supervisors continues to be a national success. All 85 districts have participated in the program, which has graduated 11,962 enrollees. In 2002, 1,572 employees graduated from the program.

Introduced in the spring of 1999, CMP addresses the needs of supervisors and managers in the EAS Level 15–22 range. In 2002, more than 25 offerings were completed for 555 EAS employees. There are three entry points or tracks representing initial and advanced supervisory skills and management development. Participants complete an assessment based on the leadership competency model to determine their appropriate entry point into the program. Currently the program consists of one week of classroom instruction for each track. In addition, functional/technical training is available for delivery and mail processing supervisors. Several other functions have functional/technical curricula already in place for supervisors.

The Processing and Distribution Management program focuses on the core operational aspects of the plant manager position. The course has been structured to touch all functional areas, and to provide reference materials and tools to the plant manager candidate. The course is a combination of classroom lecture, real world examples, and the application of learning through projects and on-the-job instruction (OJI). The course material provides an overview of basic mail processing operations, performance expectations, and support functions that directly support plant performance. The participant receives a macro view of facility operations and planning, expands knowledge of support functions, and develops a strategic plan for change. The week of OJI involves visiting a designated trainer plant manager. It allows the participant to visit a processing and distribution center, a bulk mail center, and an airport mail center. Individuals identified on performance cluster succession plans for the positions of manager, Processing and Distribution Facility, EAS-23; manager, Processing and Distribution Center, EAS-25; and manager, Processing and Distribution Center PCES-1 (small) are eligible to attend. Two classes were held in 2002, with 56 participants. A total of 175 individuals have completed the program since it started in 2001.

The ALP began in 1998 and has served as the Postal Service's premiere leadership development initiative since its inception. The program is targeted at successful mid-level managers, typically EAS-22 and above, who demonstrate high potential to take on roles of greater responsibility within the organization. ALP's curriculum is aligned with the Postal Service's Executive Competency Model, which identifies 31 critical competencies needed by senior managers and executives to

ensure high on-the-job performance. ALP is comprised of both a four-week, classroom-based curriculum, as well as a mandatory requirement of 15 college credits.

To date, over 2,000 participants have begun the program and 741 have completed all requirements for program graduation. ALP was featured in Training Magazine (January 2002) and was recognized as a W. Edward Deming award finalist by the United States Department of Agriculture (USDA) Graduate School. ALP has also been accredited by the American Council on Education and qualifies participants completing the classroom portion of the program to 12 undergraduate college credit hours.

b. Technical and Craft Education

The National Center for Employee Development (NCED) exceeded the goal of having program revenues exceed expenses. Controlled seat management, revenue-building efforts, and a curriculum expanded beyond traditional technical courses supported this success in the Center's mandate to become more self-sufficient.

The Center continued to charge postal clients by journal voucher, and increased efforts to attract non-Postal Service conference and training clients. Through stringent cost control, NCED held administrative costs to nearly \$1 million below budget. Intensive revenue efforts generated \$2 million from non-Postal Service customers, marking significant progress toward the goal of increased financial self-sufficiency.

The NCED provided critical support to the Postal Service's core business and employee development. The Center delivered automation and motor vehicle maintenance and operations courses on major Postal Service systems and equipment, plus environmental compliance and automation management programs. Offerings continued for technical and administrative courses for postal supervisors, and programs such as elevator maintenance and natural-gas vehicles for non-Postal Service clients. Staff conducted 250 courses, in 2,900 class offerings, for 41,450 people, a 9 percent increase over 2001 students.

The Oklahoma Center transmitted over 3,570 hours of Postal Satellite Training Network (PSTN) programming in 2002. NCED originated over 1,730 broadcast hours of course and technical information; and transmitted an additional 1,830 broadcast hours that originated elsewhere, including the Business and Management Channel, the Center for Leadership Development, USPS-TV, and Southeast Area programs.

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Using both PSTN and the Postal Audio Training Network (PATN), NCED delivered 22 distance-learning courses to 13,540 employees in their home offices.

NCED enhanced the web-based Automated Enrollment System (AES), which may be accessed through Employee Development's Knowledge Learning Center, to allow Postal Service employees nationwide to view course information without a logon ID. This increased the AES user base from about 3,000 employees, to all employees with access to the Postal Service Intranet. The AES learning modules not only collect postal training requests and provide extensive reports, but electronically manage seat allocations, enrollment, student records, and e-learning courses. Administrative modules support NCED budget tracking, revenue collection, housing occupancy, and conference space management.

FY 2002 Major NCED Accomplishments: Postal Education and Expanding NCED's Client Base

NCED continued its major mission of supporting the Postal Service's core business through technical education and employee development. A secondary mission is to grow the Center's training client base outside of the Postal Service. Examples of 2002 accomplishments include:

- Developed and delivered new foundational courses. Examples include 10 total offerings of Fundamental Maintenance Skills and Hydraulics and Pneumatics. Foundational courses will help the Postal Service grow skilled labor from within the organization, and increase NCED's potential to attract external training customers.
- Developed a new Sort Program System course and delivered nine offerings, further expanding NCED's Postal Service audience beyond maintenance to operations and in-plant support.
- Developed the new Flats Interim Remote Encoding System course for the automated flat sorting machine (AFSM) 100, and delivered 10 offerings. The course provides another interim phase for the future Universal Coding System.
- Supported national Breakthrough Performance Initiatives (BPI) by providing field courses for Advanced Facer Cancellor System (AFCS), delivery barcode sorter feeder alignments, and system optimization. Several courses on managing automation contributed to improved field automation operations, efficiency, cross-functional teamwork, and unit productivity.
- Renovated an entire training wing and installed two more AFSM 100s late in 2002 to incorporate electronics technician courses from the vendor.
- Delivered simultaneous classes on two shifts to educate 612 mechanics and 72 electronics technicians in just three months.
- Moving AFSM 100 technical courses to NCED saved field offices about \$1,000 per student in travel and lodging costs, and the Postal Service also avoided spending additional capital monies to fund the vendor-delivered course.
- NCED also developed an update training video for previously trained technicians, saving offices even more travel and training costs.
- Renovated leased training space and assumed courses for the modified flat sorting machine 1000, now called the universal flat sorting machine (UFSM) 1000 with automated flats feeder and optical character reader (OCR).
- Delivered PSTN courses to prepare field sites to accept the machine modifications. Also delivered train-the-trainer programs for operations personnel. NCED altered maintenance program schedules to conduct operations courses on Friday afternoons and Saturday, which made for more efficient scheduling of the equipment and space.
- Produced a PSTN segment on the updated small parcel and bundle sorter (SPBS) with the PC-104 operating system modification. The broadcast was taped and copies were offered to new employees at field sites.
- Delivered several courses to field offices for national projects including Signode and Mosca Banders, Automated Airline Assignment, Automatic Tray Sleever, and Semi-Automated Scan Where You Band.
- Developed and delivered the Energy Auditing and Conservation course for facility managers. Program instructs facility managers how to conduct energy audits, maximize energy conservation and reduce operating costs. This course has potential to attract external clients.
- Developed and delivered 11 offerings of Vehicle Maintenance Office Skills course for 100 vehicle maintenance employees. This course will enhance the computer skills for vehicle maintenance personnel, to insure accurate reporting of operations information.
- Assumed responsibility for the Performance Maintenance Management 2000 program from the Maintenance Technical Support Center. This ongoing program will increase NCED revenue and aid in training materials development.
- Trained 56 new supervisors in ASP offerings at NCED, which provides management skills for newly appointed supervisors.

- Revised and delivered the Postmaster 18 course to 30 new postmasters on day-to-day operations and responsibilities.
- Developed and delivered a training program on On-Board Diagnostics II to support new mail delivery vehicles. This program will also be marketed to nonpostal automotive clients.
- Developed and delivered a training program on the National Electrical Code (NEC) for postal electricians. Pilot sessions were successful, and the program will be offered to outside organizations requiring NEC update training.
- Conducted 30 Environmental Safety and Health programs referencing federal, state, and postal regulatory compliance. Courses included hazard communications; hazard waste operations and emergency response; Occupational Safety and Health Administration (OSHA) general industry overview and a seven-module core safety curriculum leading to the Occupational Safety and Health Technician (OSHT) certification; asbestos management; pollution prevention; clean water and indoor air quality; hazardous waste management and release reporting.
- Participated in the Integrated Logistic Support Plan (ILSP) process, contributing to the efficient and cost-effective support of over 20 new and evolving national equipment systems. Efforts will continue into 2003.
- New ILSP projects included the AFCS—Video Facer Modification, AFCS Ink Jet Cancellation, three AFSM 100 modifications (secondary address reader, automated tray handling system, and feeder enhancement), Ventilation Filtration System, Biohazard Detection System, and the AFCS—Doubles Detector.
- Continued support to evolving ILSP systems including: Delivery Bar Code Sorter (DBCS)—Expanded Capability, Postal Automated Redirection System (PARS), Flat Bundle Collator, Automated Parcel Processing System (APPS), Enhanced Plant Wiring, Information-Based Indicia (IBI) Program, wide field of view, multiline optical character reader (MLOCR)/Mail Processing Bar Code Sorter Replacement, UFSM 1000, and Singulate Scan and Induction Unit.

Expanding Information Technology Programs

NCED continued to expand its information technology (IT) curriculum and client base. Accomplishments include the following:

- Established a partnership with KnowledgeNet and offered web-based e-learning courses on office productivity and electronics technician/information technology to the entire Postal Service.

- Established a partnership with Microsoft and became a certified CompTIA and CTECH training facility. Staff completed high-end Cisco Systems security certifications and set up a security classroom. These partnerships and certifications give NCED status within the IT community as a provider of industry standard courses.
- Developed and delivered Microsoft engineering-level courses, including Maintaining Cisco Routed Networks (MCRN), CompTIA NET+, and Building Industry Consulting Service International (BICS) telecommunication cabling courses.
- Developed and delivered Microsoft Outlook software courses and other programs supporting the Postal Service's migration to the Advanced Computing Environment (ACE). This is a major initiative for the computer and networking infrastructure of the Postal Service. Courses will continue into 2003.
- Provided IT training to customers from the University of Oklahoma, Oklahoma Department of Human Services, Oklahoma Gas and Electric, and Lucent Technologies. Also developed and delivered a Cisco "capstone" program for Oklahoma vocational technology centers.

NCED Revenue Generation

In 2002, the Center booked 205,250 total housing room nights, of which 17,800 were conferees. NCED training and conference business remained strong despite cancellations after the terrorist attacks on September 11, 2001.

- Training efforts for Postal Service clients included technical and computer courses, plus offerings on business mail, safety, OSHA, and management. Non-Postal Service clients paid \$157,300 for courses in information technology, elevator maintenance, natural gas vehicles, and building systems.
- Conference services were provided for Postal Service and external clients. Events ranged from small banquets, to meetings and retreats, to large conferences for 600 attendees. Postal Service conference topics included delivery/retail standardization, achieving service excellence, and engineering training. Major non-Postal Service clients included AFLAC, ConocoPhillips, North American Retail Dealers Association, Oklahoma University, Hitachi, Sonic Corporation, ABC Sports, and the National Severe Weather Service. The University of Oklahoma football

team returned to hold planning retreats the night before each home football game.

c. W.F. Bolger Center for Leadership Development

The events of September 11, 2001, and the subsequent anthrax attacks resulted in an initial decline in business, the Bolger Center managed to stay ahead of last year's goals. Working with the contract marketing and sales staff, the William F. Bolger Center for Leadership Development set aggressive goals to capture new business from the external market. Rates to external customers were repositioned to maximize revenue and increase profitability while continuing to show customers value for accommodations and services.

The Center generated \$7 million in revenue from non-Postal Service customers, an increase of \$3 million over 2001. Approximately 35,000 people passed through the Center resulting in a total of 61,546 room nights. Some of the Center's largest repeat customers included Lockheed Martin, SAIC (Science Applications International Corporation), WESTED, Department of Veterans Affairs, George Washington University, Head Start, and the U.S. Navy and U.S. Marine Corps.

Since Bolger Center serves as the Continuity of Operations Plan (COOP) site for Postal Service Headquarters, several initiatives were begun to update facilities and improve emergency preparedness. Communications and computer networks were upgraded and specific work spaces were designated for the Postmaster General and other key officers in the event of a national emergency.

Fifty-three ALP groups have completed the first phase of the program. Forty-eight of these groups have completed Phase II. Also, 291 ALP participants submitted certificate of completion forms with official transcripts, signaling their completion of all program requirements for the November 14, 2002 graduation.

The Processing and Distribution Management course, introduced in 2001 to focus on the core aspects of the plant manager position, continued with fewer offerings. Only two classes were held in 2002, with 57 participants completing the course.

Two new courses were introduced at the Center during the past year. Both courses are titled Principles of Project Management. Each course presents proven techniques in the context of the project manager's responsibilities for definition, planning control, and leadership. The four-day course requires that each participant bring a project to class for practical application. The three-day class does not. The last day of each course consists of training for Microsoft Project 98 soft-

ware. The courses were introduced in July. There were two offerings of the 3-day course and one offering of the 4-day course for a total of 58 participants.

The Media Unit produced 45 PSTN broadcasts, or more than 90 hours of airtime. These PSTN broadcasts were produced for several Headquarters clients, including Pricing and Classification, Address Management, Sales, and Operations. Among these were a series of informational PSTN broadcasts dealing with rate change impacts on operations, retail, and mailpiece design. Twenty videos were produced for the following internal clients: Environmental Management, Inspection Service, and Employee Resource Management. The Media Unit also produced the first in a series of 30-second promotional spots for the Employee Assistance Program. They will be played over USPS-TV to raise employee awareness and participation in the services provided through EAP.

6. SELECTION, EVALUATION, AND RECOGNITION

a. Responsibilities

Selection, Evaluation, and Recognition (SER) is responsible for the following:

- Establishing guiding principles for recruitment and hiring of a qualified workforce.
- Designing and delivering effective, efficient, and fair assessment systems.
- Providing guidance on organizational selection, placement, and evaluation methods.
- Partnering with internal customers to achieve operational success.

In addition, SER's achievements in 2002 included improving applicant access to the Postal Application and Scheduling System (PASS), the redesign of www.usps.com/employment, and the rollout of the Universal Associate Supervisor Program for remote Postal Service facilities. SER also played a key role in the restructuring of Headquarters and Headquarters-related units and continued to administer the Voice of the Employee (VOE) survey.

1. Attracting the Right Applicants for the Right Jobs

To assist individuals interested in Postal Service employment, the www.usps.com/employment website was redesigned to promote and strategically showcase the Postal Service as a major competitive employer. The web site now advertises employment opportunities, test openings, job information, compensation, and benefits information.

2. Postal Application and Scheduling System

During 2002, SER continued to enhance the functionality associated with PASS. Originally implemented in January 2001, this system includes an interactive voice response (IVR) system and a web application to collect examination information and casual and temporary employment applications. PASS not only streamlines and standardizes the test application process at a substantial cost savings, but also protects sensitive application information, reduces cycle time between application and examination, and provides a national web-based scheduling component with an automated fulfillment process for mailing applicant scheduling packages. Since its initial implementation, PASS has processed over 7,200 examinations for casual and temporary openings and more than 1.3 million applicants.

Some of the more significant enhancements made to PASS during 2002 include:

- The addition of a United States map on the web application that allows potential applicants to search for examination and casual and temporary employment opportunities.
- Refinements to the IVR and web applications to reduce the number of incomplete applications and reduce “no-show” rates for examinations.
- The capability to support special career opportunities afforded certain categories of employees, such as casuals, transitional employees, and postmaster relief and leave replacements.

3. Universal Associate Supervisor Program

The Universal Associate Supervisor Program (ASP) was developed over five years ago and has been successfully implemented in major metropolitan locations where there are significant numbers of supervisory positions, as well as a need for well-trained supervisory pools to fill in during vacations and long-term absences.

With the implementation of Universal ASP, all remote Post Offices and plants are now part of the ASP program. Universal ASP increases national consistency for the selection, training, and placement of supervisors while preserving the benefits of the original ASP program. The Initial Level Supervisor (ILS) selection system, used by offices previously not covered by ASP, was replaced with Universal ASP.

4. Restructuring of Headquarters and Headquarters-related Units/ Customer Requirements

To refocus the Postal Service's priorities on its core business, in 2002 the Postal Service undertook the most significant reorganization since 1992. The Headquarters organization was restructured to better serve both internal and external customers and to better position the organization for future changes in technology, shared services, product development, operations, marketing, and sales.

The number of officers was reduced by 20 percent. The Headquarters organization was streamlined, with the elimination of some 800 positions Headquarters and Headquarters-related field units.

The Office of Customer Requirements played a significant role in developing the new structure by reallocating resources and grade levels appropriately to attain economies of scale.

Concurrent with the Headquarters reorganization, both the Midwest and Mid-Atlantic Areas were consolidated into the current eight-area configuration. This effort provided better control over operations and a significant reduction in administrative costs. Similar changes are under consideration and will play a critical role in the overall cost reduction effort. Following reduction in force (RIF) and RIF avoidance procedures, these changes were accomplished in record time compared to past reorganizations of this scale, with minimal disruption to operations.

SER supported the restructuring by developing implementation strategies for 95 competitive areas. Because many of the restructuring changes involved a transfer of function (ToF), SER developed and implemented ToF business processes and automated its software system to accommodate ToF reassignments. As a result, the Postal Service now has processes in place that comply with the Office of Personnel Management's ToF regulations. To assist unplaced employees during the restructuring, SER developed and implemented a Job Opportunities website that provided job vacancy listings for impacted employees and gave them first consideration for management vacancies.

5. Giving Special Consideration to Temporary Employees for Career Positions

SER deployed new policies to further the consideration of casual employees for career positions through competitive examinations. The Commission on a Safe and Secure Workplace recommended that the Postal Service provide special consideration to temporary

employees for career positions when the noncareer employees have already been screened and trained, and are known to be good workers.

6. VOE Survey

SER has developed and implemented employee opinion surveys, called Voice of the Employee (VOE) surveys, for the last 11 years. The surveys sample one-fourth of career employees each quarter. Each survey elicits opinions on a wide variety of work-related issues and provides a mechanism to monitor the organization. Results from the surveys are provided on the WebEIS. An index formed from six of the survey questions has been used as the primary measurement of the Postal Service's success in meeting its VOE goals.

The national VOE survey results for 2002 show an index number of 58.8, an improvement over the baseline 2001 index of 58.1. The overall response rate for 2002 was 57 percent versus a 55 percent rate in 2001. The results reflect improved scores in the areas of employee recognition, supervisory treatment of employees, and ability to communicate with employees.

Survey data and employee suggestions will help the Postal Service to achieve continuous organizational improvement.

7. Employee Assistance Program and Workplace Environment Improvement

The Office of Workplace Environment Improvement (WEI) was created in September 1998 to reflect management's commitment to improving the postal work environment and bringing focus to "people issues" in the Postal Service. Recently the work of the Employee Assistance Program (EAP) and WEI were combined under one manager and the office was renamed EAP/WEI. The function includes the EAP, violence prevention and crisis management activities, the identification and propagation of indicators, and measures and initiatives for workplace environment improvement. Key components of EAP/WEI for 2002 and 2003 continue to be:

- Coordination and implementation of Strategy 5 milestones (Build a Highly Effective and Motivated Workforce) in the Postal Service Transformation Plan.
- Development of the role of the employee workplace intervention analyst position to play a more strategic and consultative role in the field.
- Integration, assessment, and communication of employee feedback and other workplace environment information.

- Support for replication of a broad array of workplace improvement initiatives and practices.
- Communication of progress in improving workplace environment. Specific areas in which these components are carried out are as follows:

a. Employee Assistance Program.

The Postal Service EAP provides free, voluntary, confidential, in-person counseling services to employees and family members from masters-level counselors housed in or near local Postal Service facilities. Counselors are available 24 hours a day, seven days a week, in convenient locations to assist employees and family members with difficulties that affect their personal lives and their work, including emotional, financial, legal, chemical dependency, marital, and family problems.

The EAP provides consultation to managers and supervisors regarding not only individual workers but also the work setting within which they function. The EAP intervenes, when appropriate, through preventive efforts, such as manager coaching and educational seminars on communication and stress management. EAP also provides ameliorative efforts that include conflict resolution sessions and organizational interventions and restorative actions, such as debriefings after a critical incident (e.g., suicide, domestic violence at work, armed robbery, and accidental death). In 2002, 44,618 employees and their family members received counseling from the EAP.

Forty-five percent of employees reported some type of work problem that affected their work performance. EAP staff responded to more than 399 critical incidents and provided assistance to more than 7,543 employees after these incidents. Health and wellness seminars on topics ranging from stress management to elder care to substance abuse were provided to 44,918 employees.

b. Violence Prevention and Crisis Management.

The Workplace Environment Advisory Committee, includes representatives of employee unions, management associations, labor relations, and human resources, with the manager of EAP/WEI as chair. This group, working closely with the Postal Inspection Service and EAP/WEI, uses a standardized protocol for the identification and resolution of potential "troubled worksites." These are Postal Service sites that may be susceptible to threatening or other undesirable behavior as a result of individual or systemic problems. The efforts of the committee, in concert with area and local personnel, resulted in resolution at nine sites. In addition, EAP/WEI assists the field in ensuring that local threat assessment and crisis management teams are in

place and that desired training is provided. Finally, EAP/WEI staff members continually respond to potential threats and crisis incidents throughout the Postal Service to ensure prompt response, swift resolution, and maximum safety of Postal Service employees.

EAP/WEI continues to lead the efforts to implement the recommendations made by the Commission on a Safe and Secure Workplace, also known as the Califano Commission. Communication regarding changes is ongoing.

c. Integration of Employee Feedback and Workplace Environment.

EAP/WEI plays a pivotal role in increasing the effectiveness with which data from the VOE survey and other workplace environment sources is used. Beginning with the 2000 survey, the Board of Governors approved an indicator using six of the survey questions. EAP/WEI provides technical assistance to the field in interpreting and responding to the data. It also facilitates the sharing of information about field and best practices that improve the workplace environment.

EAP/WEI staff members serve as internal consultants to increase the efficiency and effectiveness of WEI efforts nationwide. Also, EAP/WEI disseminates information about resources for addressing workplace environment issues, including local and national Postal Service initiatives and external sources. Finally, EAP/WEI will continue to deliver national messaging in 2003, to ensure that the business case for improving the workplace is recognized and accepted.

d. Dependent Care.

Pursuant to a Memorandum of Understanding (MOU) negotiated with the American Postal Workers Union, AFL-CIO for the 1998–2000 National Agreement, the Postal Service and the APWU jointly selected a vendor to provide a dependent care resource and referral service to management and APWU-represented employees. The service allows employees to get assistance in locating dependent and elder care resources as well as a variety of options to help balance work and home life. The MOU remains in place through November 2003.

D. POSTAL COST APPORTIONMENT AND POSTAL RATEMAKING DEVELOPMENTS

(39 U.S.C. 101(D))

1. OMNIBUS RATE CASE: DOCKET NO. R2001-1

On September 24, 2001, the Postal Service filed a request with the Postal Rate Commission (PRC) for a recommended decision on changes in rates and fees. The proposed overall percentage change was 8.7 percent and included a 3-cent (or 8.8 percent) increase from the current 34-cent basic First-Class Mail® rate. The proposed increase was designed to provide an additional \$4.3 billion in annual revenue, based on a test period of 2003.

The filing also included numerous classification changes that would be responsive to customer needs and the changing environment. For example, the Postal Service proposed that Delivery Confirmation™ service be expanded to First-Class Mail parcels, and that delivery information be available for certified First-Class Mail letters and flats; it proposed a new drop ship discount and a new pallet discount for Periodicals mailers; it proposed an incentive for customers to enter large, heavy parcels at the destination sectional center facility; and it proposed including Delivery Confirmation as a Parcel Select feature. Also, the Postal Service proposed continuing the restructuring of Post Office box grouping and fees begun in the previous omnibus case to better reflect the local cost of providing the service.

On October 25, 2001, Chairman Omas of the PRC suggested that the participants pursue settlement discussions with the goal of terminating the case before the end of the 10-month litigation schedule typically experienced in omnibus rate cases. Commissioner Omas proposed settlement in light of then recent events, including the September 11, 2001, terrorist attacks and the anthrax mailings that had precipitated a greater need for revenues than had been reflected in the Postal Service's filing. An early termination of the case would allow the Postal Service to implement rate and fee changes earlier and would result in greater overall revenues.

The Postal Service and the other participants undertook extensive settlement negotiations involving two general settlement conferences and numerous discussions in smaller groups. Eventually, the participants reached a settlement agreement that resulted in most

of the Postal Service's original proposals being implemented on June 30, 2002. The agreement also incorporated several relatively minor changes in the proposed rates and fees. A total of 57 out of 63 parties in the case signed the agreement. Only one party, the American Postal Workers Union, AFL-CIO (APWU), opposed it, challenging the proposed discounts for First-Class Mail presort and automation letters. The Commission scheduled hearings to consider APWU's opposing testimony.

On March 22, 2002, the Commission issued its Recommended Decision on the Postal Service's Request to the Governors of the Postal Service. The Commission accepted the joint Stipulation and Agreement as the basis for its recommendations. On April 8, 2002, The Governors approved the classification, fee, and rate changes recommended by the Commission. With one minor exception, the new rates, which averaged 7.7 percent, became effective on June 30, 2002. No party sought judicial review of the Governors' Decision.

2. RIDE-ALONG EXPERIMENT EXTENSION CASE: DOCKET NO. MC2001-3

On September 28, 2001, the Postal Service filed a request with the PRC to extend the expiration date of the ongoing experimental Periodicals Ride-Along classification, which had been established in Docket No. MC2000-1. The Ride-Along experiment permits an enclosure included in periodicals mailings to pay a flat, per-piece rate of 10 cents. This is more affordable for mailers than the prior requirement to pay the Standard Mail rate for the piece. It is also simpler for the Postal Service to administer.

The Postal Service requested the extension, pending the issuance of a Postal Rate Commission recommendation on the permanent classification and rate changes for Ride-Along proposed in the omnibus rate case, Docket No. R2001-1. The experimental classification would have expired on February 20, 2002, unless the Postal Rate Commission recommended the requested extension.

The participants in the proceeding negotiated a settlement agreement based on the Postal Service's proposal. On January 11, 2002, the Commission issued its Recommended Decision, essentially adopting the unopposed Stipulation and Agreement to extend the experiment. The Governors approved the recommendations in a decision dated February 4, 2002. The changes were implemented on February 24, 2002.

3. EXPERIMENTAL SUSPENSION OF FEE FOR MANUAL DELIVERY CONFIRMATION CASE: DOCKETS NO. R2001-2 AND MC2001-2

On September 20, 2001, the Postal Service requested a Commission-Recommended Decision on an experimental mail classification proposal that would allow the Postal Service to offer Delivery Confirmation service without a fee to retail Priority Mail customers from December 1 through December 16, 2001. The proposal had three objectives. First, the proposed experiment was expected to give Postal Service customers an incentive to mail packages before the busiest week of the holiday mailing season, with a possible associated reduction in the Postal Service's resource needs during the peak period. Second, it would introduce the retail Delivery Confirmation service to customers who otherwise would not be aware of it. Third, the experiment was expected to provide valuable experience with more flexible pricing approaches.

The Postal Rate Commission established an expedited schedule for consideration of the proposal, with the goal of issuing a Recommended Decision in mid-November. On November 5, 2001, the Postal Service withdrew its request. It explained that, in light of the need to face the challenges posed by world events, including use of the mail for bioterrorist acts, the most prudent course would be to focus its window service and retail operations on the provision of existing domestic services during the upcoming holiday peak mailing season. The Commission closed this docket on November 6, 2001.

4. CONFIRM CLASSIFICATION CASE: DOCKET NO. MC2002-1

On April 24, 2002, the Postal Service filed a request with the Commission seeking the establishment of a new special service, CONFIRM®. CONFIRM employs barcode technology that enables subscribing mailers to track the processing of automation compatible letter- and flat-sized mail. The new service is designed to benefit both mailers and the Postal Service.

Available on a subscription basis, CONFIRM provides mailers with valuable, near real-time information concerning the processing of their outgoing or incoming reply mail. This information enables mailers to improve the effectiveness of their mailing operations, e.g., by fine-tuning their drop shipping plans or scheduling the staffing of fulfillment or customer service operations.

The Postal Service benefits through the availability of information that can be used to evaluate and improve mail processing operations.

On June 21, 2002, the Postal Service filed with the Postal Rate Commission a settlement agreement that was joined by all participants, with the exception of one individual who did not oppose the agreement. The Commission issued its opinion on July 26, 2002, recommending the fees and classifications proposed by the Postal Service and embodied in the settlement agreement, although it also modified the DMCS language in certain respects. The Governors approved that recommendation on August 5, 2002, and the Board of Governors directed implementation of CONFIRM service to take effect on September 22, 2002.

5. CAPITAL ONE NEGOTIATED SERVICE AGREEMENT: DOCKET NO. MC2002-2

On September 19, 2002, the Postal Service filed a Request with the Postal Rate Commission seeking a recommendation on limited rate, fee and classification changes designed to implement a customized agreement with a large user of First-Class Mail. The agreement with Capital One Financial Services Inc. constitutes the first attempt by the Postal Service to establish customized rates applicable to the unique circumstances of one mailer through a Negotiated Service Agreement (NSA). The agreement is structured to reduce the Postal Service's costs while providing Capital One an incentive to use First-Class Mail rather than Standard Mail for solicitations. Features of the agreement include reduction in the volume of returned mail, enhanced address hygiene practices relating to undeliverable-as-addressed (UAA) mail, and discounts on First-Class Mail solicitation volume that exceeds an established threshold. The request seeks a Commission recommendation establishing the discounts on an experimental basis. While no other mailer is sufficiently similar to Capital One to take advantage of this NSA's terms, the Postal Service has indicated a willingness to work with other mailers to establish mutually beneficial NSAs or niche classifications.

The Postal Service and Capital One filed the testimony of six witnesses who testified on the desirability and financial impacts of the proposed changes. Hearings on the direct testimony were held December 3-5, 2002. Two participants have indicated an intention to file their own direct cases opposing the Postal Service request or supporting their own proposals. The case is currently pending before the Commission.

6. EXPERIMENTAL PERIODICALS CO-PALLETIZATION DROP SHIP DISCOUNTS CASE: DOCKET NO. MC2002-3

On September 26, 2002, the Postal Service filed a request with the PRC for rate incentives to move more Periodicals mail from sacks to pallets. The focus is on smaller publications (and less dense portions of other publications), which are still prepared in sacks because they lack the density needed to form pallets as an individual publication.

The proposed incentives encourage different publications to combine volumes so that there is enough volume to form "co-pallets." The proposed discounts would be available only for drop shipped mail. Once pallets are formed, drop shipping is easier to justify, as mail to particular destinations would already be combined. Since the preparation of co-pallets is typically more onerous than the preparation of single-publication pallets, an additional rate incentive is believed to be needed to encourage mailer participation. Two discount levels are proposed, distinguished by the depth of drop shipping. The experiment is intended to test how much co-palletization and drop shipping the proposed discounts will produce.

The Postal Service communicated with a wide variety of Periodicals mail customers to develop this proposal, and it is hoped that this case can be settled and implemented within a short time frame.

7. FIRST-CLASS MAIL SERVICE STANDARDS COMPLAINT CASE: DOCKET NO. C2001-3

On May 19, 2001, a complaint was filed with the PRC, pursuant to 39 U.S.C. 3662, alleging that in 2000 and 2001 the Postal Service implemented changes in two- and three-day service standards for First-Class Mail service on a nationwide or substantially nationwide basis, without first requesting a Commission advisory opinion, pursuant to 39 U.S.C. 3661. The complaint also alleged that the First-Class Mail service resulting from these service standard changes did not comply with various policies under the Postal Reorganization Act (the Act). While the Postal Service admitted that service standard changes occurred during 2000 and 2001, it did not consider that a request for an advisory opinion was required. Rather, it contended that the service standard changes were part of a more extensive realignment plan previously submitted for Commission review in Docket No. N89-1. The Postal Service also did

not consider that the service resulting from the changes was inconsistent with any policies of the Act. The complaint proceeding is pending before the Commission.

8. SUNDAY AND HOLIDAY COLLECTIONS COMPLAINT CASE: DOCKET NO. C2001-1

On October 27, 2000, a complaint was filed with the PRC, pursuant to 39 U.S.C. 3662, alleging that changes in Sunday and holiday mail service implemented by the Postal Service in previous years had resulted in a nationwide or substantially nationwide change in service for which the Postal Service should have requested an advisory opinion from the PRC under 39 U.S.C. 3661. The Postal Service moved to dismiss the complaint on the grounds that it did not allege a belief that the Postal Service was failing to provide services in conformance with the policies of the Act. The PRC dismissed the portion of the complaint relating to the termination of outgoing mail service on Sundays in 1988, but it declined to dismiss the portion of the complaint relating to changes in holiday mail service. After an extensive amount of discovery, the complainant completed submission of his direct testimony in April 2002. Initial and reply briefs were filed in July 2002.

On November 5, 2002, the PRC issued a public report containing its findings and recommendations. While acknowledging that the complainant in this case had not met his burden of showing that actual holiday or holiday eve service levels are not in accordance with the Act, the Commission nonetheless took the opportunity to identify what it believes to be deficiencies in the area of holiday service.

The Commission's most concrete recommendation was that the Postal Operations Manual (POM) and the Domestic Mail Manual (DMM) should be updated to reflect current holiday practices. The Postal Service had already initiated such an effort prior to the filing of the complaint, and during the case did not dispute that updating the manuals would be desirable. Beyond that, the Commission suggests that the Postal Service needs to make a better effort to understand what level of service is needed and expected by customers on holidays, to adjust its holiday service to meet those needs and expectations, and to provide meaningful notification to the public of the holiday service levels to which the Postal Service has committed itself. In contrast, the Postal Service took the view during the case that the mailing public appreciates that there is no entitlement to outgoing mail service on federal holidays (just as there is no entitlement to normal delivery service on holidays), and that, while the Postal Service locally varies the hol-

iday service it provides in order to manage its operations most efficiently, this approach creates no discernible hardship to mailers. Postal Service management is continuing its review of the Commission's public report.

9. POSTECS COMPLAINT CASE: DOCKET NO. C99-1

In October 1998, United Parcel Service (UPS) filed a complaint with the PRC, pursuant to 39 U.S.C. 3662, concerning the Postal Service's provision of PosteCS®, a wholly electronic, Internet-based document service designed to support secure electronic communications. The fundamental basis for the complaint was the allegation that the Postal Service was offering PosteCS to the public without having first submitted to the Commission a request for a Recommended Decision on classification provisions and rates associated with this service. The complaint further alleged that provision of PosteCS at no charge on an introductory basis is contrary to the pricing standard of the Postal Reorganization Act. Finally, the complaint alleged that the service constituted a "nationwide change in service" for which an advisory opinion must be requested under that Act, pursuant to 39 U.S.C. 3661.

In its motion to dismiss the complaint, the Postal Service maintained that the Commission does not have subject matter jurisdiction to entertain the question of whether PosteCS was a postal service. Even if the Commission had jurisdiction to consider the complaint, the Postal Service asserted that PosteCS was plainly not a postal service for purposes of the Commission's jurisdiction, according to the definitions of that term put forth by the courts, the Commission, and the Governors of the Postal Service. On May 3, 1999, the Commission issued an order denying the Postal Service's motion to dismiss and ordered further proceedings on the question of whether PosteCS is a postal service for purposes of the Commission's rate and classification jurisdiction. On November 9, 2001, the presiding officer issued a ruling granting a motion by UPS to suspend proceedings in the complaint case, pending the conclusion of the omnibus rate case, Docket No. R2001-1.

On February 1, 2002, the Postal Service discontinued the sales function for PosteCS service. On March 1, no new customers could register for the Postal Service's PosteCS service. As of April 30, no new transactions could be initiated with the Postal Service's PosteCS service. Recipients could no longer access messages after May 31. In light of these events, on September 5, 2002, the presiding officer directed the Postal Service to provide a pleading declaring the status of PosteCS

service. On September 19, the Postal Service requested that the Commission dismiss the complaint because the controversy was moot. On November 6, the Commission dismissed the complaint on those grounds.

E. TRANSPORTATION POLICIES

(39 U.S.C. 101 (e),(f))

1. GENERAL

The Postal Service spent \$5.1 billion in 2002 for the contractual transportation of mail. This represents a 1.5 percent increase from 2001 transportation expenses compared to increases of 7.4 percent and 10.4 percent respectively for the previous two years. After the terrorist attacks on September 11, 2001, the Federal Aviation Administration placed restrictions on larger mail pieces which prohibited the Postal Service from using commercial air carriers. The Postal Service was forced to move virtually all Priority Mail to the FedEx and surface networks. Other major influences during the year were declining volumes and declining fuel prices.

2. DOMESTIC TRANSPORTATION

a. Air Transportation

Air transportation costs in 2002 totaled \$1.9 billion, an increase of 3.6 percent over the prior year. These costs include the use of commercial airlines (passenger and freight) and dedicated networks. The Postal Service contracted to move more than 2.54 billion pounds of domestic mail last year. Since the attack on America, the Postal Service has not been able to transport mail pieces 16 ounces or greater on commercial airlines. This resulted in dramatically lower volumes flown on commercial airlines and higher volume on the FedEx network. The alliance with FedEx has addressed transportation requirements for significant portions of Express Mail and Priority Mail and lesser amounts of First-Class Mail. Also, additional dedicated air taxis to domestic, off-shore destinations such as Hawaii, Alaska and Puerto Rico were required.

b. Rail Transportation

Postal Service expenses for all rail transportation were \$228 million for 2002. This represents a 4.9 percent decrease from 2001. In 2002 the Postal Service paid Amtrak \$85 million for rail transportation service. The majority of service provided by the Amtrak transportation network is for Periodicals mail. Additionally,

the Postal Service spent \$141 million with eight other railroads that perform service on rail segments throughout the country.

c. Highway Transportation

The Postal Service expended approximately \$2.4 billion for highway mail transportation in 2002. This 2.7 percent increase over 2001 was caused by the realignment of two- and three-day service, which resulted in mail being diverted from air carriers to service-responsive surface transportation.

e. Domestic Water Transportation

In 2002, the cost of transporting mail to domestic offshore destinations was \$25 million, a 2.7 percent decrease over 2001.

3. INTERNATIONAL TRANSPORTATION

a. International Air Transportation

The Postal Service continues to align its air transportation strategy with providing universal service that satisfies the global delivery requirements of American businesses and consumers. In 2002, the Postal Service spent \$161.2 million on international air transportation to more than 188 foreign postal administrations. This represented a \$27 million decline over the previous year as export volumes from the United States declined due to global economic conditions. U.S.-flag suppliers were paid \$132.3 million, and foreign-flag suppliers received \$28.9 million. The use of foreign-flag suppliers, particularly for airmail service, expands the Postal Service's ability to reach destinations where U.S.-flag suppliers do not provide the required service. In addition, the cost of military mail, reimbursed by the Department of Defense, increased by \$24.5 million to \$146.2 million over the previous year, reflecting growing deployment of military personnel in various regions of the world.

b. International Surface Transportation

The cost of international surface transportation by ocean decreased from \$6.6 million in 2001 to \$5 million in 2002. Ocean surface transportation suppliers are selected on the basis of a best value, comparative analysis of proposals.

c. Terminal Dues and Transit Charges

Under the acts of the Universal Postal Union (UPU), each postal administration that receives mail from another administration has the right to collect from the sending administration a payment for the costs incurred in processing and delivering mail received from that administration; those charges are called terminal dues. Additionally, the UPU provides for transit charges for

mail which is exchanged between administrations through a third country. Transit charges are paid by the sending country to the intermediary country for forwarding mail to the destination.

In 2002, the Postal Service paid \$428 million for both terminal dues and transit charges compared to \$477.2 million in 2001.

4. Postal Service-Owned Transportation

POSTAL SERVICE VEHICLE INVENTORY

Vehicle Type	2002 Inventory
1/4-Ton	1,695
1/2-Ton	173,329
1-Ton	1,257
2 and 2 1/2-Ton	7,617
Cargo Vans	2,398
Tractors	1,841
Spotters	405
Trailers	5,080
Service	5,095
Administrative	5,284
Law Enforcement	2,913
Mobile Post Office	211
Miscellaneous	131
Total Owned	207,256

POSTAL SERVICE VEHICLE OPERATING TRENDS

Number of Vehicles	208,921
Miles Traveled	1,151,200,093
Miles per Gallon	9.6
Cost per Vehicle	\$4,026.45
Cost per Mile	\$0.75

5. Mail Transport Equipment

The Mail Transport Equipment (MTE) contract service provides an integrated network (i.e., distribution, logistics/network management, and information services supporting tracking and tracing) for the Postal Service's mail handling equipment. Five operational suppliers manage 22 MTE service contract sites broken out by city clusters of normally three pairs. These city clusters are located throughout the United States. Moreover, the network is operated through an Operating Systems Integration and Management contract. Six fixed price contracts were competitively awarded among five suppliers in 1998. The contracts have a 5-year basic contract period and one 5-year option period. During 2002, the MTE service contracts processed more than 1,148,000,000 units valued at \$220.0 million.

The independent and externally administered Customer Satisfaction Measurement system consistently shows high marks, from both premier and national accounts, for the availability of serviceable MTE.

F. POSTAL SERVICE FACILITIES, EQUIPMENT, AND EMPLOYEE WORKING CONDITIONS

(39 U.S.C. 101 (g))

1. SAFETY AND HEALTH

The Postal Service safety and health program met serious challenges as a result of the September 11, 2001 World Trade Center attacks and the subsequent mailing of letters containing anthrax. Despite these difficulties, the program reduced occupational injuries and illnesses, and in partnership with OSHA, implemented voluntary protection programs (VPP) to recognize and promote safety and health management at Postal Service facilities.

Postal Service safety and health professionals responded quickly in the lower Manhattan area following the September 11, 2001, attacks. While these attacks occurred at the close of the previous fiscal year, the effects continued into the new year. National, area, and local management provided counseling, medical follow-up, filtering masks, and eye drops for employees. The Postal Service hired contractors to perform necessary sampling and clean-up for affected units. Postal Service representatives also worked closely with local emergency managers and federal agencies, pursuant to the Federal Response Plan, on response and recovery operations in the lower Manhattan area.

The five deaths from anthrax, including two Postal Service employees, sent shockwaves through the general public and Postal Service employees alike, and raised serious questions about the safety of the mail. These bioterrorism attacks closed two major processing and distribution centers in the eastern United States, and contaminated 21 other postal facilities. The Postal Service also had to deal with more than 17,000 hoaxes that disrupted operations across the country.

Even before anthrax was identified in any Postal Service facilities, steps were taken to protect our employees. An Emergency Management Fundamentals course was already in the planning stages, which included a response to terrorist and bioterrorist acts. Ten of the courses were delivered to field managers

over the year. On October 10, 2001, Headquarters issued field instructions to ensure that personnel had required training for emergencies, to encourage coordination with local emergency personnel, and that supervisors give mandatory safety talks on emergency action plans.

When the first two anthrax cases were identified in Boca Raton, FL, the Postal Inspection Service assisted other law enforcement agencies in a complete investigation. Postal Service safety and health management and the Inspection Service provided the managers of our 85 field administrative districts with information for safety talks that were provided to all employees, answering their most pressing questions. These included: What is anthrax? How is it transmitted? How can infection be prevented? How is anthrax treated? The Postal Service issued dozens of safety talks, guidance documents, and news updates to keep employees regularly informed about this issue.

As the nature of the anthrax threat became better understood, the Postal Service established a Unified Incident Command Center (UICC), which included the Centers for Disease Control and Prevention (CDC), the National Institute for Occupational Safety and Health (NIOSH), the Environmental Protection Agency (EPA), the U.S. Coast Guard, the Army Corps of Engineers, the Occupational Safety and Health Administration (OSHA), the Food and Drug Administration (FDA), and firms that were contracted to conduct facility sampling. The Postal Service successfully performed anthrax sampling at 284 facilities nationwide between October 25 and December 1, 2001. State health labs analyzed the samples. The Postal Service coordinated sample evaluation with the assistance of the American Public Health Laboratories (APHL) association. The sites selected for sampling included facilities that handled both upstream and downstream mail flows.

Twenty-three positive test results were received. In these cases, targeted decontaminations were performed immediately, and post “de-con” samples were taken for analysis. The Postal Service relied heavily on state and local health officials to determine if medication was appropriate for employees and “at risk” customers at these sites.

A nationwide safety and health alert system was operated through our National Postal Operations Center (NPOC) to provide protective equipment, make necessary maintenance changes, identify potential anthrax infections, and provide medicine through health agencies when appropriate. The NPOC was activated on October 16, 2001. The NPOC team was connected directly to all nine area postal operation centers (POCs).

The area POCs were connected with the 85 district postal operation centers that managed the day-to-day interventions required to address thousands of hoaxes and reports of suspected incidents at facilities across the nation.

In addition to sampling, the UICC dealt with other issues requiring coordination with member agencies, including worker protection, public health, medical prophylaxis, disease surveillance, criminal investigation, emergency response, waste disposal, mail security, sampling methods, and bioterrorism contingency plans. The newly-created Office of Homeland Security provided funding and assistance necessary for our response.

The Postal Service developed and published Interim Guidelines for Sampling, Analysis, Decontamination and Disposal of Anthrax for U.S. Postal Service Facilities in cooperation with other federal agencies, postal unions, and management associations. These guidelines established prescreening protocols for sampling facilities, which all contractors were required to follow. The Postal Service also worked with the Federal National Response Team to produce an anthrax guidance document that was made available to the public. A Postal Service mailing to every household in the nation provided information on how to identify and handle suspicious mail.

To protect employees at facilities, the Postal Service switched from forced-air systems to remove dust from machines (“blowing out”) to either special filter-equipped vacuums or manual cleaning. The Postal Service purchased NIOSH-certified face masks and nitrile gloves for employees, and paid for all employee tests related to anthrax. Over 17,000 Postal Service employees who might have been exposed to anthrax were given precautionary medication, upon guidance from state health departments and the CDC. Vaccinations were offered to affected employees, and a total of 103 employees enrolled in this program. A database, the Serious Illness Tracking System (SITS), was set up November 21, 2001 to ensure that follow-up treatment was provided to employees hospitalized with suspicious flu-like symptoms or skin lesions. Postal Service medical professionals also monitored workers who reported flu-like symptoms, but were not hospitalized, since the onset of inhalation anthrax is similar to influenza.

The Postal Service selected Titan Corp. and Ion Beam Applications (IBA) Inc. to provide electron beam systems and services to sanitize mail intended for government offices and eliminate the threat of anthrax contamination. That government mail was sent to Titan

in Lima, OH, and IBA in Bridgeport, NJ, where facilities operated 24 hours a day, seven days a week. The irradiation process was adjusted at both locations to avoid damaging the mail. The Safety function worked in conjunction with the CDC and NIOSH to identify potential health issues with irradiated mail, and implemented ventilation and other controls to protect employees and customers.

In spite of September 11, 2001, and the subsequent anthrax attacks, the Postal Service had a successful year in the safety and health program. The OSHA Injury and Illness rate was 7.72 accidents/illnesses per 200,000 work years, against a target of 8.41. Our national motor vehicle incident rate was 10.39 incidents per 1 million miles driven, versus a target of 11.50.

The Postal Service worked closely with OSHA to expand its participation in the VPP. The Scranton, PA, processing facility achieved Star status under the OSHA VPP program. In addition, the Glens Falls, NY, Post Office entered the Merit program which is the stepping stone to Star status. The designation "Star" is applied to a select group of facilities with exemplary health and safety programs. The Postal Service is also pursuing other partnerships with OSHA, including ergonomics initiatives.

The Safety Depends on Me video series began in mid-September 2001. Each kit contains a video, posters, a safety talk, and stickers. Kits on Slips, Trips and Falls and Materials Handling and Lifting and Industrial Accidents — What Happened? have been released. The programs have been very popular, and were awarded two Telly Awards. The Telly Awards were founded in 1980 to showcase and give recognition to outstanding non-network and cable commercials.

2. ENVIRONMENTAL PROGRAMS

In 2002, the Postal Service completed an independent national review of hazardous waste sites and significantly reduced its environmental liability. More than 60 facilities were removed from the EPA's large generator status. Over 200 Postal Service sites no longer generate any hazardous waste, and of the sites that still do, none are considered a large generator. This means reduced risk of employee injuries due to chemicals and solvents, reduced hazardous waste disposition and environmental compliance costs, and lower administrative and record keeping costs.

In 2002, the Postal Service also developed an environmental portal and Environmental Management Contract Control system. The portal, which uses off-the-shelf software, serves as a knowledge management tool. It supports project management and increased col-

laboration among environmental professionals; provides access to decision tools, productivity software and national contracts; and "crawls" the Web to provide information to users. This new technology has enabled the Postal Service to improve service to field customers despite a 30 percent reduction in staff in the past year, according to data from a national customer satisfaction survey conducted by an independent firm.

During 2002, the Postal Service deployed 21,275 flexible fuel vehicles, which are powered by any combination of ethanol and gasoline. The flexible fuel vehicles, when driven on E85, conserve petroleum and provide considerable reductions in pollution. The ethanol, which makes up 85 percent of the fuel, is renewable, and at present, is produced mainly from corn products.

The Postal Service also deployed 500 electric vehicles in California, New York, and the Washington, DC, metropolitan area this year. The electric vehicles save on petroleum use, do not pollute (i.e., zero emission), and are much quieter than ordinary vehicles. They have a battery pack instead of a fuel tank, thus eliminating trips to the gas station for petroleum-based fuel. They track better through the snow because they are heavier than the gas-powered version and have better wheel alignment. Operators find them as good as or better to drive than ordinary vehicles.

With the completion of these two deployments, the Postal Service's alternative fuel vehicle fleet now numbers over 30,000, or about 15 percent of its total fleet. This is the largest alternative fuel vehicle fleet in the world. For the future, the Postal Service is examining new technologies such as hybrid electric vehicles, which if proven cost effective in use, will further contribute to reducing pollution and fuel costs.

In 2002, the Postal Service worked with the Defense Energy Support Center to establish a national contract for the federal government to purchase B20, an environmentally superior fuel made up of 80 percent diesel fuel and 20 percent biodiesel fuel. Biodiesel is a renewable fuel made from agricultural products that generates lower pollution than regular diesel. The Postal Service is one of the largest users of B20 in the government. During 2002, the Postal Service reduced its oil consumption by almost 700,000 gallons through the use of B20. In fact, our use of this fuel from 1999-2002, resulted in a reduction of approximately 8,000 pounds of hydrocarbons, 25,000 pounds of carbon monoxide, 4,500 pounds of sulfur oxides, and 7.7 million pounds of carbon dioxide. Our steadily increasing consumption of B20 has provided us with a cost-effective means to meet regulatory requirements.

In 2002, the Alabama District received White House Closing the Circle awards, which is the federal government's top award for environmental leadership and innovation, for its pollution prevention program.

Energy

Energy consumption within postal facilities decreased significantly in 2002. The Postal Service spends approximately \$500 million per year for energy and, therefore, the consumption reduction allowed us to save tens of millions of dollars. Furthermore, Postal Service facilities are already highly energy-efficient compared to most federal facilities. The average energy consumption among federal facilities is about 108,000 British thermal units (BTUs) per gross square foot (GSF). By comparison, the Postal Service facility energy consumption averages less than 70,000 BTUs/GSF, which is more than 35 percent below the federal average.

In 2002, the EPA began to analyze data collected from over 100 Postal Service stations and branches to identify facilities that qualify for the Energy Star label and to establish benchmark standards for the others. This project ultimately will reduce energy consumption for the Postal Service.

The Postal Service remains a leader in implementing innovative energy solutions at its facilities. In 2002, a state-of-the-art project that combines steam heating with electricity production was approved. This technology uses a byproduct of electricity production that would otherwise be wasted. The Postal Service is on the cutting edge of other energy technologies, including a fuel cell project in Alaska, solar energy projects in Rhode Island and California, and geothermal projects in Nebraska and Maryland. The Postal Service is testing these technologies for their efficiency, economic value, and affect on the environment.

The Postal Service purchased 40 energy-saving Segway™ Human Transporters in 2002 to determine the feasibility of using them on mobile/pedestrian routes to carry and deliver the mail. Segway Human Transporters are two-wheeled electric scooters that enable letter carriers to transport as much as 35 pounds of mail at speeds up to 12.5 miles per hour. In some cases, they can be used on walking routes, decreasing the time needed to complete delivery as well as the physical demands of the job. In others, they can substitute for 4-wheel vehicles, thereby reducing petroleum consumption and pollution. Initial testing in six cities across the country has been promising. Testing will continue during 2003 to fully evaluate the safety and human engineering of the Segway Human

Transporter, as well as its ability to save money through less expensive, more efficient means of delivering the mail.

During 2002, the Postal Service sought competitive bids from electricity and natural gas suppliers in many states to take advantage of customer choice initiatives that allow buyers to choose among suppliers. The process involves soliciting bids from electricity and natural gas suppliers to support Postal Service facilities' requirements in a given region of the country.

3. FACILITIES

a. USPS Real Estate Inventory

USPS REALESTATE INVENTORY

Total owned facilities	8,313
Total owned interior square feet	222,068,232
Total owned land in square feet	900,302,842
Total leased facilities	26,319
Total leased interior square feet	102,039,015
Total GSA/other government facilities	431
Total GSA/other government interior square feet	4,067,574
Annual rent paid to lessors	\$841.1 million

b. Realty Asset Management

The Realty Asset Management function provides internal expertise to identify, analyze, and maximize the return on underutilized and surplus real property assets controlled by the Postal Service. This organization generates income from real estate assets by maximizing postal property value through its highest and best use, leasing or subleasing excess Postal Service space to government and public tenants, and selling surplus real property. During 2002, revenues totaling \$86.6 million were generated by Realty Asset Management from the following sources:

REALTY ASSETMANAGEMENT

Leasing to private tenants	\$ 9.2 million
Leasing to government tenants	\$31.2 million
Sales of excess property	\$25.5 million
Rent from developmental property	\$20.7 million

c. Postal Service Facilities Workload

POSTAL SERVICE FACILITIES WORKLOAD

	Projects Completed During 2002	Projects Ongoing as of End of 2002
New construction, major renovations, and expansion projects	61	138
Building purchases	28	70
New lease construction	140	117
Other lease actions (alternate quarters, new leases, and lease renewals)	5,023	2,004
Expense repair and alteration projects	6,615	3,744
Capital repair and alteration projects	3,551	1,651

4. SUPPLY MANAGEMENT

To increase customer satisfaction and reduce Postal Service costs, Supply Chain Management (SCM) business practices were adopted in 2002. This integrated business approach aims at achieving optimal efficiencies and cost reduction at every point in the purchasing and supply stream, from the supplier's supplier, to the customer, and through disposal of products purchased. Management has adopted SCM philosophy and business practices to further the business objectives of the Postal Service. Despite the direct challenges to the Postal Service and its national communications network that resulted from the September 11 terrorist attacks and the subsequent anthrax attacks, Supply Management succeeded in achieving its business objectives and realized over \$200 million in cost reductions or cost avoidance while gaining new efficiencies.

This year, Supply Management achieved cost efficiencies and quality management by centralizing purchasing activities, aggregating requirements to leverage volume, reducing the supplier base, instituting standardized requirements based on historic demand, lowering the cost of nationwide buys, and participating in newly formed strategic partnerships that draw upon the specific expertise and capabilities of both the Postal Service and its supply partners.

a. Organizing for Supply Chain Management

To achieve the business goals of cost efficiency and quality, SCM depends upon close interaction among end users, buyers, and suppliers, focusing on long-term contracts and partnerships and their ongoing improvement. To better manage these essential relationships, materials management and purchasing processes were integrated into a single, cost-efficient process in 2002.

In July, Purchasing and Materials was restructured to better align the organization with SCM best practices. The new Supply Management organization established five commodity-based Portfolios that purchase the goods and services required by the Postal Service. The Portfolios assemble and centralize commodity expertise and leverage the Postal Service's buying volume to decrease costs. Throughout the buying and supplying process, Category Management Center (CMC) category teams and purchase teams apply SCM business practices to both strategic sourcing and individual purchases and orders. The teams continually examine demand, market conditions, and the supplier community to determine how best to meet the needs of client organizations and which business practices will be of the most benefit to the Postal Service's bottom line.

The five Portfolios are as follows:

- (1) The Facilities Portfolio is responsible for purchasing, design and construction and related services, and facility fixed products and equipment (non-mail processing).
- (2) The Mail Equipment Portfolio is responsible for purchasing operational equipment and associated research and development (R&D). This includes automation and materials handling equipment.
- (3) The Services Portfolio is responsible for purchasing services ranging from consultants to maintenance, repair and operations (MRO) services.
- (4) The Supplies Portfolio is responsible for purchasing supplies ranging from computer hardware and software to vehicles and vehicle supplies.
- (5) The Transportation Portfolio is responsible for purchasing all types of mail transportation, bulk fuel, mail transport equipment services used by suppliers and, the servicing and maintenance of such equipment.

Within each Portfolio, buyers, market analysts, price analysts, item managers and others work in CMCs, specializing in the purchase and supply of particular commodities. The CMCs are located at Headquarters and in field locations. Separately, four purchasing service centers (PSCs) were established to purchase supplies and services for the day-to-day operational needs of field offices. The Operations group concentrates on inventory control and materials distribution within the organization.

Field transactional purchases were the former responsibility of the purchasing and materials service centers (PMSCs). In centralizing commodity purchasing for greater efficiency, contracts formerly handled by the Hoboken and Minneapolis PMSCs were reassigned

within the new Supply Management organization. Consequently, those two PMSCs were closed. Staff members at those locations were afforded opportunities to find employment in other offices within Supply Management and the Postal Service at large. Special counseling and job search sessions were conducted by Headquarters and local Human Resources organizations.

In partnership with Delivery Confirmation, Supply Management Operations consolidated all delivery-confirmation label production in its Supply Label Print Shop, with a projected savings or cost avoidances to its postal clients of \$1.6 million annually. With the Postal Service's Network Operations customer not having new mailbag requirements for the next two years, Supply Management closed the bag shop within the Mail Equipment Shop. Operational savings of \$4 million are anticipated from this action in 2003.

Within the new Supply Management organization, a Strategies group was put in place to provide SCM expertise and guidance to the Portfolios and CMC teams in identifying, developing, and implementing SCM-focused strategies. A new Supply Management Infrastructure group is responsible for policies and procedures, training and development, process review, and data integrity.

c. Process Simplification

During 2002, significant progress was made in simplifying policies and procedures throughout the buying and supplying organizations. Issue 2 of the Postal Service Purchasing Manual, published at the end of January, highlights the establishment of streamlined contract documents, largely based on terms and conditions used in the commercial marketplace. These new procedures have resulted in easier-to-understand solicitations and contracts, greater numbers of responsive proposals, and enhanced contract performance. The Postal Service continues to increase the flexibility of its purchasing policies in furtherance of best business practices and consistent with its Transformation Plan.

The Postal Service's e-purchasing system, eBuy, provides over 30,000 Postal Service employees with electronic requisitioning and approval capability. Employees with Internet access are able to access electronic catalogs and track purchases. During 2002, the system was enhanced to include several new features such as a paperless requisitioning and approval process, and access to Postal Service excess equipment. Over the next few years, 10–12 additional catalogs per year will be added to eBuy. The operational benefits of eBuy directly support the Information Technology and Supply Management strategies in the

Transformation Plan. These benefits occur at every stage of the purchase and pay process and substantially lower operating and administrative costs. eBuy was awarded the E-Gov Trailblazer Award as an outstanding E-Government Best Practice application that has streamlined operations and improved government services.

d. Anthrax Eradication

The Postal Service was uniquely challenged by anthrax bioterrorism during 2002. Supply Management played a central role in the rapid and effective response to the anthrax crisis.

To foster the safety and health of employees and customers and to secure the mail, Supply Management worked with the Postal Service's national medical director and Employee Resource Management to identify and make available all supplies, equipment, and services required to protect against any anthrax contamination within the postal system. These supplies and services included irradiation equipment and services to ensure the safety of mail; biohazard transportation; mass communications to employees and the public on anthrax contamination and Postal Service progress in eradicating it from the mail system; High Efficiency Particulate Air (HEPA) vacuums; protective masks, gloves and bio-creams; flu vaccines; and, testing, decontamination, and cleanup services for affected facilities. Working with the Postal Service's Engineering and Environmental Management Programs, in less than 60 days, Supply Management awarded contracts valued at over \$105 million for these critical supplies and services.

Supply Management Operations established standard operating procedures to safely cleanse possibly contaminated repair parts. Upon notification of potential cross-contamination from impacted sites, the processing, repair, and distribution of over 1,500 critical repairable equipment items was immediately halted. Operations at two repair centers, associated distribution centers, and the Mail Equipment Shop were immediately interrupted and facilities, equipment, and over 350 Postal Service and contractor personnel were immediately tested for anthrax exposure. One repair and distribution center tested positive for anthrax and the Postal Service moved swiftly to decontaminate the facility and equipment. During this process, Supply Management worked closely with national Maintenance operations to co-use field parts and ensure that all mail processing equipment remained operational. Supply Management made employee safety a priority while also being involved in uncharted processes for detection and

decontamination. Constant communications kept employees, customers, and the public informed of eradication efforts.

d. Major Purchases

A contract for \$28.2 million was awarded for the renovation of an existing 325,000 square foot mail processing building, consolidating mail processing operations from the existing Hackensack and Paterson Processing and Distribution Plants into one facility, the Northern New Jersey Metro Processing and Distribution Center.

A contract for \$8.5 million was awarded for construction of the new Main Post Office in Fairfax, VA. The new building will contain approximately 34,544 gross square feet and a multilevel parking structure situated on approximately 3.3 acres of land. Construction began in September 2002 and will be completed in January 2004.

To improve the effectiveness of automated address identification systems for processing letter mail, a contract was awarded to Siemens Dematic Postal Automation, L.P., for Phase One of the Postal Automated Redirection System (PARS). A firm fixed-price contract with performance incentive provisions was negotiated. Under the terms of the 30-month contract, Siemens Dematic will manufacture and install 53 systems and associated modifications to remote encoding equipment and the National Customer Support Center, and provide training, spare parts, support, and all required warranties. PARS will be capable of identifying undeliverable-as-addressed (UAA) letter mail at the first handling machine and automatically redirect it to the current, correct destination to improve operational efficiency and service. Siemens will provide a complete and comprehensive automated solution for mail forwarding. PARS Phase One deployment will begin in July 2003 and will end in May 2004.

A contract was awarded to Bell and Howell Postal Systems for 1,003 Mail Evaluation, Readability, and Lookup Instrument (MERLIN) systems to verify mailings and validate correct postage. Under the firm-fixed price 23-month contract valued at \$113.8 million, Bell and Howell will manufacture and install MERLIN units, providing training, spare parts, support, and all required warranties.

A contract was awarded to Lockheed Martin Corporation for 8,839 wide field of view (WFOV) wide area bar code reader (WABCR) replacement camera systems. A fixed price contract was negotiated for \$92.9 million. Under this 2-year contract, Lockheed Martin will manufacture and install camera systems,

and provide training, spare parts, support, and all required warranties. The existing, aging WABCRs will be replaced at approximately 1,600 postal facilities. The WFOV systems will permit reading the information-based indicia (IBI) and other two-dimensional codes on full-height letter mail. IBI technology will give customers more flexibility in addressing and managing their mailing requirements by taking advantage of two-dimensional bar coding applications technologies.

In the Services Portfolio, the Postal Service continued to consolidate its advertising agency contracts for the purchase of creative and strategic services, media planning and buying, direct mail advertising, and retail/in-store point of purchase promotions. By reducing its advertising services contracts to four, the Postal Service expects to reduce costs and implement a more integrated advertising strategy.

The Supplies Portfolio awarded contracts for the Advanced Computing Environment (ACE) — a suite of services and hardware that replaces the existing Postal Service distributed computing environment with a more central and standardized environment. The Postal Service leveraged strategic sources and awarded contracts for Compaq ADEPT II systems, the Electronic Data Systems (EDS) Help Desk, and Microsoft Licenses. In 2002, contract savings were \$10 million for the EDS Help Desk and \$5.5 million for the Microsoft license.

In the Transportation Portfolio, the Postal Service signed contracts with Workhorse and Freightliner for 3,234 two-ton mixed delivery vehicles. The combined contract value is \$130.7 million. The vehicles include features such as backup cameras, monitors, electronic door locks and ignition, and training programs and manuals. Although model year 2003 vehicles will be produced, through negotiations with suppliers, the Postal Service was able to retain 2002 contract pricing, reaping \$1.9 million in savings for the Postal Service. Significant savings will also be realized during 2003 under these contracts.

Due to post-September 11 national emergency security measures, the Postal Service was forced to find an alternative to tendering Priority Mail service to commercial carriers. The Postal Service negotiated significant expansion agreements with FedEx for the handling and transportation of expedited mail. The Postal Service and FedEx also have a retail agreement which enables FedEx to place its collection boxes at designated Postal Service facilities. The terms of this business alliance provide valuable customer service and allow the Postal Service to grow revenue and maintain and improve service levels at reasonable prices.

The commercial air industry and the Postal Service will form new air system contracts (Commair2003) in 2003. In a process developed this year, these contracts will be competitively awarded, replacing the current negotiated set-rate contracting method.

The Mail Transport Equipment Service Center (MTE SC) program provides an integrated network (distribution, network management, and information services) for the processing and repair of the Postal Service's mail transport equipment (MTE). Five suppliers operate 22 MTE SC contract sites. During 2002, the MTE SCs processed and repaired more than one billion units resulting in payments of over \$220 million to suppliers. The MTE SC network provides the Postal Service savings in the form of fewer work hours, reductions in MTE purchases, and efficient MTE inventory management.

e. Supply Management Operations

The Supply Management Operations organization is responsible for managing thousands of line items required for daily Postal Service operations, providing Supply Management support to the areas through four material service centers (MSCs) and one Material Distribution Center (MDC). The Operations catalog includes over 25,000 stocked items and 5,000 items ordered directly from suppliers. Operations issued \$269 million in parts, supplies, printed material, and equipment in 2002 (\$155 million from inventory and \$114 million delivered direct from 90 suppliers).

Supply Management assisted Retail in saving \$11 million on inventory costs and on the distribution of merchandise to all Postal Stores and outlets. In addition, Supply Management saved \$7 million on the packaging and distribution costs of packaged stamps through better inventory management and planning.

Additional savings of \$20.5 million were obtained by reducing wholesale inventories from \$138.6 million to \$118.1 million, a reduction of 15 percent. In the same period over 3,000 new items with a value of \$8.4 million were added to support new major programs. Reallocation of equipment in lieu of new purchases resulted in cost avoidance of over \$65 million.

f. Supplier Diversity

The Postal Service's Supplier Diversity program is a fundamental element of the corporate strategy to remain competitive and profitable in the marketplace. Modeled after private sector programs, Postal Service supply strategies seek to strengthen the organization's supplier base by identifying strong suppliers and providing them the opportunity to compete for Postal Service contracts.

The Postal Service continues to maintain close relationships with national associations and their affiliates that support supplier development and diversity throughout the country. During 2002, the Postal Service sponsored or actively participated in over 80 fairs and events focused on supplier diversity. The Postal Service website, www.usps.com, offers a variety of material providing information on doing business with the Postal Service, as well as on connecting to buyers and key contacts, and also offers current information on contract opportunities. Further, the Postal Service offers several publications and guides to increase access to business development. Publications 5, Let's Do Business; Publication 5-S, Negociemos; and Publication 5-A-C, Let's Do Business (Chinese version), help guide diverse businesses and organizations through the procedures of acquiring contract opportunities.

The Postal Service periodically benchmarks its achievements in supplier diversity against the public and private sectors and, historically, has measured up well. During 2002, the Postal Service purchased more than \$50 million dollars in goods and services under the terms of the Javits-Wagner-O'Day Act, which promotes purchases from firms that principally employ the blind and severely disabled. Additionally, contract commitments with minority businesses reached \$272 million dollars; \$361 million dollars in contract commitments were also made with woman-owned businesses; and, there were more than \$2.4 billion in contract commitments with small businesses.

In an effort to reduce cost and increase competitiveness, the Postal Service, in conjunction with the independent federal agency, The Committee for Purchase from People Who Are Blind or Severely Disabled, established a purchase negotiation process that will help reduce future price increases. The new purchasing process aligns with commodity price indexes.

g. Training and Development

Supply Management continued to transition from postal-specific training programs for its employees to a much more business-focused, and commercially available, supply management curriculum. Eighteen Institute for Supply Management 2-day seminars were conducted throughout the Postal Service's purchasing and materials community. More than 400 purchasing and supplying professionals attended at least one of the courses.

In terms of professionalism and professional achievement, approximately 69 percent of Supply Management's purchasing and supplying professionals have an undergraduate degree and more than 60 per-

CHAPTER 1 COMPLIANCE WITH STATUTORY POLICIES

cent are professionally certified in either the purchasing or materials management disciplines. Supply Management training courses heighten the expertise of our qualified professionals.

Under the Office of Government Ethics (OGE) guidelines, the Postal Service must provide designated employees with annual ethics update training. Web-based ethics training was developed and provided to over 360 purchasing and supplying employees, meeting the OGE annual training requirement.

A. PUBLIC PERCEPTIONS, CUSTOMER OUTREACH AND MAILER LIAISON

1. CUSTOMER FEEDBACK ANALYSIS

The Postal Service uses a variety of methods to communicate with customers about its services, products, policies, and personnel. The aggregated data from these sources allow the Postal Service to formally integrate the voice of the individual consumer into its business practices and provide feedback to operations, where the Postal Service can take action, respond, and improve. In 2002, the number of customer contacts through traditional methods of communications (i.e., letters, phone calls, customer walk-ins, claims) decreased. The number of customer inquiries via Internet, an alternative customer communication vehicle, also decreased.

The Postal Service logged 221,208 customer contacts during 2002, an approximate 9 percent decrease. Of these, 3 percent were compliments, 2 percent were general information requests and 95 percent were service issues.

At the close of 2001, Consumer Affairs, Headquarters, customer service specialists processed a total of 159,804 customer e-mail messages. In 2002, a total of 68,255 customer e-mail messages were handled by Teletech agents.

2. PRIVACY

The Privacy Office was established in November 2000 to protect the value privacy brings to the trusted Postal Service brand—both for traditional hard copy delivery and for electronic applications. To maintain privacy leadership, the Privacy Office stays current with the evolving privacy landscape, including legal and policy frameworks, new technologies, and best-in-class business models and practices. The office also ensures Postal Service compliance with the Privacy Act and Freedom of Information Act (FOIA).

In 2002, the Privacy Office established online policies for the Postal Service's web site, www.usps.com, that meet and exceed both government and commercial requirements and guidelines. These include implementation of the type of machine-readable privacy policies adopted by major industry, and included in the recent E-government Act for all government websites. The Office also developed a commercial e-mail policy to reflect best practices used in the marketing industry and to standardize Postal Service processes for sending mar-

keting messages. In addition, uniform privacy clauses were developed for, and incorporated into, contracts and business processes.

In 2002, the General Accounting Office recognized the Postal Service's privacy efforts as "focused and aggressive." This was echoed by a www.usps.com customer survey that rated the Postal Service very highly for protection of online customer information. The Postal Service is represented on the Executive Privacy Strategy Group of Privacy and American Business, and the steering committee of Privacy 2001 and 2002, a leading privacy conference.

3. CUSTOMER OUTREACH AND MAILER LIAISON

a. National Postal Forum

National Postal Forums (NPFs) were held in San Diego, CA, and Boston, MA, with over 9,000 business customers and exhibitors attending. Business mailers attended the Forums to obtain information about mailing industry issues, trends, and opportunities; to learn about cutting-edge technology; to participate in information-packed business and educational sessions; to have access to Postal Service decision makers; and to network. Today's NPFs provide professionals with ongoing training in a rapidly changing industry, the opportunity to build on the business partnership between the Postal Service and its customers, to network with industry peers, and to talk directly with Postal Service officials.

Innovation in the Mail was the NPF theme in 2002. NPF General Sessions provided attendees with insight into the vision, plans, and priorities of mailing industry leaders. The Postmaster General outlined the Postal Service's objectives and priorities for the future. Topics included: how transformation of the Postal Service affects the mailing industry; rates; and postal products and services. The deputy Postmaster General and the chief executive officer of Pitney Bowes reported on the continuing efforts of the Mailing Industry Task Force, which they co-chair. Attendees received information about technology available to improve the value of the mail through numerous sessions, workshops, and exhibits. Postal Service executives, along with industry leaders, led discussion groups that addressed remittance mailers, periodicals mailers, package mailers, and advertising mailers service issues. Postal Service officers hosted numerous Business Builder Strategy Sessions at each Forum. The sessions featured Postal Service programs and initiatives and customers who have benefited from them. NPF attendees also were offered sessions on address management, how to keep

costs and rates low, and avoiding fraud scams. Mail security was particularly emphasized and a Mail Center Safety session and a wide variety of other safety and security sessions were offered.

In all, the Forum's training and education program offered customers approximately 100 business sessions and workshops at each Forum. These training and education programs were designed around customers' business processes and categorized as follows: Mailing Made More Affordable, Mailing Made Easier, Mailing Made More Effective, Mailing Made More Efficient and Predictable, Mailing Made Global, Mailing Made Safe & Secure, Mailing Made Smarter, and Mailing Center Professional.

As part of the Postal Service commitment to continuing education, three certificate programs were offered to attendees. A Mail Center Professional Certificate was offered to those who attended required sessions in specific mail preparation and mailing operations areas. A Mail Center Safety and Security Certificate was offered to those who attended four safety-related educational sessions. A Department of Defense Official Mail Workshop Certificate was offered to those individuals attending the Official Mail Workshop business session. Applicants for certificate programs who attended the required sessions receive certificates. To date, approximately 1,200 individuals have participated in these certificate programs. Complementing the Forum's educational program was the exhibit floor, which featured approximately 290 companies at each Forum. The exhibits displayed the latest in mailing supplies, services, mail automation equipment, software, and computer hardware.

b. Executive Mail Center Manager Program

In response to input from the mailing industry, the Postal Service has been working with mailing industry professionals and nationally recognized training experts to develop the U. S. Postal Service Executive Mail Center Manager (EMCM) program. This program provides attendees with an elite mailer educational program that provides comprehensive education relevant to the knowledge, skills, and abilities needed to successfully manage a mailing operation.

c. Postal Customer Council

A Postal Customer Council® (PCC) is a local, grass-roots organization comprised of businesses that use the mail to reach their business goals. PCCs provide networking and educational opportunities to help businesses effectively and efficiently communicate and enhance their relationship with customers and to identify prospective customers through the mail. They also

provide the Postal Service the opportunity to enhance its working relationship with local businesses and to better identify their needs. In 2002, many PCCs more actively sought the participation of small and medium-sized businesses through the Direct Mail Seminar Program. During the year, more than 250 local PCCs held over 1,700 customer meetings. Mail security issues and the Postal Service Transformation Plan were the major topics in 2002.

Recognizing the capability of the PCC network to communicate important information to customers, the Postal Service continued to call on the PCCs to discuss mail security issues. Mail security seminars are now a mainstay of many PCC symposiums. In the spring and summer approximately 75 special meetings were held to discuss the Postal Service Transformation Plan. Many of these meetings featured Postal Service officers and/or executives as speakers. Comments from attendees were overwhelmingly positive and appreciative of the effort. As John Wargo, vice president of the Service and Market Development said, "If we didn't have organizations as effective as the PCCs in reaching our customers, we'd have to create them."

Keeping Posted, the national PCC newsletter is featured as an insert in our monthly Memo to Mailers newsletter and now reaches well over the 175,000 customer and company addressees, almost all of whom are members of PCCs. The newsletter often features successes of PCCs, thus providing examples of best practices for other PCCs. Complimenting the newsletter is the PCC website at www.usps.com/nationalpcc; and the co-chair's website at www.usps.com/nationalpcc/cochair. The sites are targeted to help businesses find the location of their closest PCC or enable veteran PCC members to locate informative presentation material for their next local meeting. The PCC website also houses a Speaker's Bureau that allows PCCs to employ knowledgeable, experienced Postal Service managers as presenters at their local functions.

As always, providing guidance and assistance to the local PCCs is the Postmaster General's PCC Advisory Committee. This select group of industry leaders and Postal Service executives and managers has years of experience in the leadership of PCCs. They have provided unique and innovative methods to support PCC's needs and to recognize their accomplishments. Among the committee's innovative ideas is the Meeting in a Box series of videotapes, which provides material to the PCCs for local meetings. In addition, this group selects recipients of the coveted PCC Leadership Awards. These awards represent the highest honor given by the Postal Service to PCCs and their members. In 2002 the awards were presented at the NPF in San Diego, CA.

Awards were given to the most creative and innovative PCCs in the categories of Best PCC Communications Program, Best Individual PCC Event, Best Multiple PCC Event, Best PCC Co-Chair team, and Most Valuable Industry and Postal PCC Members.

In 2002 the advisory committee continued its successful PCC Leadership Conference program. Two conferences were held at the San Diego and Boston NPFs. These half-day events focused on enhancing leadership skills of the PCC co-chairs and individuals aspiring to PCC leadership. The conferences included motivational talks by several senior officers of the Postal Service and interactive sessions led by members of the National PCC Advisory Committee. The conferences were attended by Postal Service and industry co-chairs from around the country. Based on their feedback they were again judged a success and will be continued in 2003.

d. Mailers Technical Advisory Committee

The purpose of the Mailers Technical Advisory Committee (MTAC) is to share technical information, advice, and recommendations on matters concerning transformation of mail-related products and services to better enhance customer value for the mutual benefit of the mailing industry and the Postal Service. MTAC membership consists of associations that represent all segments of the mailing industry and has a 35-year history of finding solutions to major issues.

The main work of MTAC is actually performed in the workgroups which bring together dedicated and hard working Postal Service and industry specialists. Any MTAC representative or Postal Service executive can propose an issue that would require the formation of a new workgroup. The criteria for approval of a proposed workgroup is as follows: that the identified problem and/or issue must be industry-related as opposed to being centered around the needs of an individual company or organization; should be timely; any potential solution should pertain to concerns of both the industry and the Postal Service; should not be redundant with another issue already in workgroup status; and should have defined measurable objectives and an expected timetable for completion. Once the proposal is submitted, the MTAC Steering Committee discusses the suitability of the issue and comes to a consensus on a recommendation to approve, reject, or table an issue for further research. Upon approval, the Steering Committee sponsors (one from the industry and one from the Postal Service) become responsible for managing the progress of the workgroup. The sponsors also appoint an industry and a Postal Service workgroup

leader who select members of the workgroup and ensure workgroup efforts and recommendations meet stated objectives on a timely basis.

MTAC enjoyed another year of significant accomplishment during 2002. The following workgroups were brought to closure: Mail Preparation Quality (MERLIN); Priority Mail Service Improvement; Preparing Flats Using Alternate Packaging; First-Class Mail Delivery Issues; Business Reply Mail Service, Acceptance, Accounting; Future Flats Strategies; Flats Packaging Methods and Package Integrity; Drop Ship Appointment System (DSAS) Enhancements; and Unit Load Tracking.

Workgroups that are currently active include Move Update Initiative, Parcel Processing Field Study, Vote-by-Mail Research Plan, Flats Container Development, Mailer Barcode Quality Industry Best Practices, Undeliverable-As-Addressed Military Mail, Bound Printed Matter, Service Assessment for DDU Drop Shipped Packages, Delivery Standards and Business Mail Measurement, Mail Irregularity Feedback Process, Maximizing Value of Planet Code, PostalOne!, Presort Optimization, and Publication Watch. Other issues have recently been proposed for possible new workgroups.

Workgroup leaders are often called upon to make formal progress reports at MTAC general sessions held each calendar quarter at Postal Service Headquarters. The successful reports of these initiatives demonstrated our ability to successfully achieve transformation in what many consider to be the most challenging environment ever faced by the Postal Service and the mailing industry.

e. Mail Recovery Centers

The Postal Service operates two mail recovery centers (MRCs). They are located in St. Paul, MN, and Atlanta, GA. These facilities are responsible for the final disposition of undeliverable-as-addressed and nonreturnable mail. During 2002, they processed approximately 1.3 million parcels and 84.4 million letters. To better serve customers, the Postal Service uses MRCs as diagnostic tools to pinpoint specific problem areas that affect mail volumes received at our facilities. By communicating these problems to our mailers, they are able to improve their mail preparation and/or packaging. We work closely with mailer organizations to determine ways we can work together to provide better service and reduce operating costs. A direct result of this process was the Expanded Return Program, whereby undeliverable mail items found in company-identifiable packaging are returned in bulk, as postage due to the 35 participating companies. Approximately 200,000 pieces were returned through this program during 2002. Additionally, the MRCs realized a substan-

tial decrease in cycle times and processing work hours through Process Management efforts. The Mail Recovery Program, working closely with Operations, Delivery Programs, Retail, and the Postal Inspection Service, is bringing improved organizational efficiency to this activity.

f. Corporate Contact Management

Corporate Contact Management (CCM) provides Postal Service customers with easy toll-free access to a broad range of products and services through 800-ASK-USPS. CCM also handles domestic Express Mail® and Priority Mail® tracking and tracing calls to 800-222-1811 and Dinero Seguro® or Money Movers calls to 800-ENVIOMX. The overall goal of CCM is to improve customer service and operating efficiency, decrease general information calls to Post Offices and increase revenue through establishment of an effective national contact-handling infrastructure. The CCM network includes two centers in Denver, CO, and Kansas City, KS, that respond to 64 million phone inquiries from across the nation regarding general information, mailing rates, hours and locations of local Postal Service facilities, and service opportunities.

Call center responsibilities were transferred to the Vice President, Consumer Advocate's organization in 2001. The Consumer Affairs office enhanced the program with automated voice recognition technology that answers customer requests for ZIP Codes and Post Office hours and locations. The Consumer Advocate has outlined a strategic vision for the program that streamlines and consolidates the enterprise contact center and customer care, and leverages CCM infrastructure to support personalized product and service transactions, whether by phone, e-mail or online.

B. PRODUCT DEVELOPMENT

The Postal Service has a fundamental requirement to provide products and services that meet the varied needs of its business and consumer customers. The Postal Service continues to monitor the business environment for specific products and customer segments through market research, customer satisfaction/loyalty measurements, and customer value analysis.

The Postal Service continued to pursue a number of initiatives in 2002 in areas such as billing and payments, package services, advertising, and product pricing. These initiatives are focused on improving the value of existing products and services and developing new products and services which meet customers' needs.

1. LETTERS

Approximately 68 percent of letters delivered in 2002 were mailed using First-Class Mail service. Efficient service is the foundation of this flagship product, as shown by results of the External First-Class (EXFC) measurement system. The continued focus on transaction mail (bills, statements, and payments) positions the Postal Service to remain the primary channel for businesses and consumers to conduct financial transactions. Ongoing refinements of the National Firm Holdout program, redesign of Business Reply Mail (BRM) service, and constant attention to two- and three-day service performance have supported service improvements in this critical part of the First-Class Mail base.

First-Class Mail service has been further enhanced by the implementation of the new Confirm® service, which provides customers with the ability to track their outgoing and incoming reply mail pieces. Full implementation of Confirm was completed in September 2002. Confirm information enables mailers to make better business decisions by knowing where their letters or flats are as they travel through the mail stream and the time of delivery. Confirm also provides operations data and serves as a performance measurement system and diagnostic tool to identify and correct operational deficiencies.

Product Development continued to test and develop several new First-Class Mail application enhancements in 2002, including the MicroPayment® service, Friend-To-Friend Mail™ service, and Repositionable Notes.

- The Postal Service's MicroPayment concept allows customers to use postage stamps as a payment mechanism for low price point purchases valued between \$1 and \$10. In 2003, the USPS MicroPayment program is expected to be enhanced to include centralized processing, automated accounting for payment postage, and transmittal of electronic files that contain images forwarded to customers via secure electronic servers.
- Friend-To-Friend Mail is an enhancement to First-Class Mail service that enables advertisers to reach new customers by supplying their current customers with Business Reply postcards promoting special offers or messages, which also can be sent to interested friends, family members, business associates, or colleagues.
- Repositionable Notes give First-Class Mail (and Standard Mail) service an extra edge. Repositionable Notes are specially designed and applied Post-it type notes that let mailers affix a

message to the outside of the envelope, calling attention to the mailer's product or service, address, telephone number, or website and inviting customers to look inside. The note can then be repositioned on a refrigerator, computer or telephone, for example, as a reminder or for future reference after the mailpiece is discarded.

2. FLATS

The Postal Service is the primary delivery vehicle for subscription publications (periodicals) in the United States. The Postal Service's Periodicals product line consists of approximately 95 percent flat-size mailpieces. Working closely with the periodicals industry, the Postal Service has identified opportunities for cost reduction, service improvement, and business growth. Over the past year, Product Development has worked with cross-functional groups on such efforts as future flats strategies, package integrity, service measurement and mail irregularity feedback. Product Development also collaborated on several process efficiencies, including the development of customer and operations training packages, and standard operating procedures for processing plants and airmail facilities.

We have established an electronic communications vehicle (ePUBWATCH) that links publishers and printers with Postal Service delivery units to quickly identify and resolve subscriber delivery and service issues. In combination with area marketing and operations functions, quarterly Periodicals Focus Group meetings are conducted with industry representatives to educate, inform, and collaborate on issues designed to facilitate customer service and periodicals business growth. Attendees of the National Periodicals Focus Group Conference describe these events as some of the best industry-focused meetings held to date by the Postal Service.

Product Development looks forward to continuing our business building initiatives through a periodicals Web page and identifying additional areas to increase subscription marketing opportunities for publishers.

3. SPECIAL SERVICES

Special services add value to the mail in four primary ways: (1) providing safe choices on how to send money with postal money orders; (2) providing alternative ways and places to receive mail through the Post Office Box service; (3) customizing First-Class Mail service, Expedited mail service, and Package Services with a variety of accountable-mail services that permit customers to confirm receipt and delivery of their mail, obtain signatures, insure mail contents, register mail for

additional security, and have the Postal Service perform Collect on Delivery (COD) services; and (4) allowing customers to track letters and flats.

The Confirm service allows mailers to electronically receive information so that they can track their outgoing mailings or incoming reply mail. The service provides mailers with near real-time information about First-Class Mail, Standard Mail and Periodicals by using PLANET barcode technology so that mailers can uniquely identify their mail pieces. On August 5, 2002, the Postal Service's Board of Governors approved the rate classification for Confirm. The rates, represented by a three-tier subscription fee structure, were implemented in September 2002.

Product Development also initiated electronic enhancements for Certified Mail and Registered Mail services. Market research was conducted to assess customer interest in electronically enhanced Certified Mail service. Customers overwhelmingly favored proposed electronic enhancements that allow them to access the delivery status of their Certified Mail and Registered Mail items on the Internet. As of June 30, 2002, customers could view the delivery status of their Certified Mail and Registered Mail items via the Internet.

The second round of cost-based Post Office (PO) box fee structures was implemented along with the R2001-1 rate case. The fee structure for PO boxes is now based on one of seven fee levels that best match the cost of the PO box space at a given post office. Further refinements of this fee structure will continue in future rate filings. This will make it possible for PO box fees in a number of locations to cover their costs, which will create more equitable box fees over time and improve the contribution of Post Office box service to institutional costs. Additionally, in June 2002, the Postal Service migrated to the first web-based, standalone system capable of tracking Post Office box activity. This represents the initial step towards the integration of the 13,000-plus standalone systems currently used to track Post Office box activities into the new Advanced Computing Environment (ACE) web-based system. This new web-based system will help Postal Service management drive product strategies to grow Post Office box revenue and contribution.

Mail that is correctly addressed and barcoded, prior to acceptance by the Postal Service, is a key factor to enabling an efficient and cost-effective delivery system. The Postal Service, in partnership with the mailing industry, identified and proposed several initiatives to reduce the volume and associated costs of undeliverable-as-addressed (JAA) mail. The initiatives under consideration, which will have a final rule published in

2003, include: a Move Update requirement for all classes of mail; increasing the frequency of mandatory Move Update processing; removal of current manual hardcopy notifications as a Move Update option; and increasing the frequency of address matching (ZIP+4) processing.

4. ADVERTISING MAIL, STANDARD MAIL

Standard Mail service is the primary class of mail for delivering advertising content to the mailbox. It is a valuable medium for the distribution of information about products and services (catalogs and direct mail), organizations (fundraising), and individuals (campaign materials). It can target the right audience, it can deliver personalized messaging, it allows for testing of different creative and mailpiece elements as well as the entire advertising campaign, and it delivers these benefits within the framework of the security and privacy of the U.S. Postal Service. These attributes position Standard Mail service as a cost-effective and efficient advertising medium.

To better serve our customers, Product Marketing continued its efforts to refine the already successful www.uspsdirectmail.com website to offer more information and access to transactional capabilities. The improved website continues to offer online help to businesses interested in adding to their customer base and/or better meeting the needs of their current customers. New for this year is the Simple Formulas series of publications that provide idea starters, tips, tricks, and trade secrets for using the mail to grow business.

Working closely with the Sales team, Product Marketing developed new materials with a consistent corporate look and messaging to support the national sales force in its pursuit of new customers. Product Marketing is also working closely with many other functional areas to provide new tools and sales support materials to facilitate local efforts to increase revenue and better communicate the value of Postal Service products and services.

Product Marketing conducted more than fifty direct mail seminars that provided more than 3,700 small businesses with the information and tools necessary to begin using the mail to advertise their products and services. These seminars are provided in conjunction with district offices and members of the mailing community.

5. PACKAGE SERVICES

In 2002, the Postal Service continued to emphasize customer value in its service to everyone, everywhere, everyday by identifying key industry trends and offering solutions that meet the needs of individuals and businesses. Continued focus on providing consumers reliable and affordable package delivery enabled the Postal Service to remain a key provider in this highly competitive market.

The Product Development group has pursued the following initiatives to emphasize customer ease-of-use, consistent service, and price advantage:

a. Parcel Select

Parcel Select™ represents a real value for package shippers who want to save on their parcel shipping costs and choose a level of service that best meets their shipping needs. The concept behind Parcel Select originates from the term “zone skipping” that parcel shippers have known for years. Through zone skipping, parcel shippers provide their own transportation and bring parcels directly to a Postal Service facility. Since distance and transportation are major factors in postage rates, the Postal Service is able to reduce its costs and pass the savings to the shipper as postage discounts. The closer the mail is dropped to its final destination, the greater the savings. Overall, Parcel Select is an economical way to leverage the Postal Service’s greatest strength, its nationwide six-day a week neighborhood delivery network.

Parcel Select was designed for medium to large shippers looking for an economic ground delivery service option. The shipping industry has overwhelmingly embraced the product and it has demonstrated strong and steady growth. To further enhance the service in 2002, Package Services spearheaded the initiative to offer free electronic delivery confirmation to the suite of Parcel Select products. In addition, working with consolidators, critical entry times for DDU parcels were revamped to create a larger window for parcel entry.

b. Click-N-Ship

In 2002, the Postal Service expanded the shipping label capabilities available on www.usps.com. Beginning in 2001, customers could print Priority Mail labels online with no-fee electronic Delivery Confirmation. The introduction of Click-N-Ship™ in May 2002, enhanced this online label capability by providing labels with postage. The simplicity of Click-N-Ship is popular with consumers and small businesses, and is an important element of our growth strategy for this segment. In 2003 plans include building a robust pick-up program that will facilitate growth in Click-N-Ship.

c. Product Redesign

As part of the Product Redesign initiative in 2002 the Postal Service made significant progress on identifying key opportunities to improve Postal Service efficiencies and increase the value of Package Services. The Product Redesign initiative entailed several meetings of industry and Postal Service representatives to improve the value and price of Postal Service products and services, and also generate growth and contribution. Many of the team's ideas highlighted ease-of-use initiatives, reducing costs and improving processes. These initiatives are expected to be thoroughly analyzed in 2003 and incorporated as appropriate into Package Services strategies.

d. Package Summit

Package Services conducted a two-day Internal Package Summit comprised of a diverse group of Postal Service managers who were tasked with developing cost reduction and growth strategies. Some of the key areas of focus were identifying workshare opportunities, improving barcode quality and readability on parcels, standard processing of Standard Mail parcels, and identifying efficiencies in merging similar-sized flats and parcel mailstreams.

e. Confirmation of Delivery Services

In 2002, Delivery Confirmation was enhanced and expanded beyond its original capabilities and has remained a valuable asset among the Postal Service's product offerings in the highly competitive package industry.

In 2002, there was an emphasis on leveraging the fully-implemented scanner technology and expanding Delivery Confirmation to other product lines beyond expedited products. Delivery Confirmation was incorporated into the basic price of all Parcel Select product lines. Additionally, in June 2002 Delivery Confirmation became available for First-Class Mail packages.

Enhanced delivery performance reports were also added as management tools for both customers and the Postal Service. Other enhancements included using Delivery Confirmation to create shared service performance measurement reports for Parcel Select products.

C. INTERNATIONAL MAIL

International mail experienced a decline in revenue compared to 2001. The events of September 11, 2001, and the continued worldwide economic downturn negatively affected International Business revenues, in a field of increasingly competitive international mail and package delivery services. This competition came from both private carriers and foreign postal administrations.

1. VOLUME AND REVENUE

International mail revenues declined 8.8 percent to \$1.580 billion during 2002. Associated volume and weight also declined by 16.5 percent and 13.8 percent, respectively. The relatively smaller decline in revenue is attributed to the international rate adjustments implemented in January 2001. With greater emphasis on developing the global package sector, air parcel post posted a 4.0 percent increase in revenue for the year, with a corresponding increase of 3.3 percent in total air parcel post weight for the period. Letterpost traffic was down for both economy and airmail service offerings as a consequence of a softening in the global economy and the intensity of foreign competition now operating in the U.S. market. Bulk letter and printed matter services, specifically International Priority Airmail (IPA), and International Surface Airlift (ISAL), were also down, reflecting the economic weakness that is impacting business mailers.

2. INTERNATIONAL SPECIAL SERVICES AND MISCELLANEOUS FEES

As a member of the Universal Postal Union (UPU), the Postal Service adheres to the agreements of the UPU to which it is a signatory. Specifically, the Universal Postal Convention contains provisions concerning the fees member countries can charge for special mail services. The Convention provides charges for nonstandard letters, return receipts, registered mail service, restricted delivery, recorded delivery, and insured parcel mail service. The charges provided in these agreements are generally less than the Postal Service charges for the equivalent domestic service. The agreements authorize member countries whose internal service charges fees higher than those fixed by the UPU to apply their domestic charges in the international service.

Accordingly, with the June 30, 2002, increase in domestic postage rates and domestic special service fee, the Postal Service also revised certain international special service and miscellaneous fees that are the same as the equivalent domestic fees. This practice has

been customary in order to avoid having the international fees that are less than those charges domestically. In addition, there are domestic services such as certificate of mailings, money order inquiry fee, and pickup fee that can be used in conjunction with international mail.

3. MANAGEMENT AND COST REDUCTIONS

International Call Center operations were consolidated under Corporate Call Management in March 2002 at the facility located in Denver, CO. Since that time, cost efficiencies have been realized through the sharing of infrastructure and improved processes. Further cost reductions are anticipated through the sharing of call center agents for both international and domestic calls, further review of work processes, and the use of web-based inquiry systems among international delivery partners.

4. IMPROVING SERVICE FOR GLOBAL EXPRESS MAIL AND GLOBAL AIR PARCEL POST

The Postal Service continues a multiyear process of improving the reliability and features of its expedited and package service offerings. Global Express Guaranteed™, established in 2000, now provides a guaranteed, day certain package delivery option for customers. To complement this service, and to clarify related options for customers, International Business has taken steps to transform its existing Global Express Mail™ and Global Air Parcel services into a consistent and reliable menu of companion options that are predicated on days to delivery and geographic service area.

To launch these service-related distinctions, the Postal Service implemented two important steps during 2002. First, reciprocal pay-for-performance agreements were implemented for Global Express Mail with interested foreign postal administrations. These new agreements establish service-level expectations for scanning, tracking, and delivering items on time. Second, the concept of a new delivery approach for Global Express Mail and Global Air Parcel service to continental Europe, with emphasis on levels of service, was implemented. This concept has culminated in an agreement with one service provider, Consignia (Royal Mail), which replaces numerous separate bilateral arrangements with European posts, and offers the advantage of establishing consistency and realistic expectations for expedited and deferred services.

5. STATE DEPARTMENT COORDINATION

The Postal Service has continued to work in cooperation with the U.S. Department of State, which has had primary responsibility since October 1998 to formulate, coordinate, and oversee policy with respect to U.S. representation in the UPU. A chief policy goal of the Department of State has been to open the UPU to formalized participation of private-sector organizations, ranging from labor unions to philatelists and from direct mailers to express delivery companies. At its October 2001 session, the UPU Council of Administration accepted the recommendations of the High Level Group to permit private-sector members of the UPU Advisory Group to attend UPU council meetings, on an interim basis until the next UPU Congress in 2004 can formally approve the creation of a new Consultative Committee. Through its active participation on U.S. delegations to the High Level Group, the Postal Service played a key role in seeking the consensus support of other council members to accept the new open-door policy. The first opportunity to implement the policy was at the April 2002 meeting of the Postal Operations Council (POC), where Advisory Group members, including a U.S. private sector mail industry representative, participated in several meetings and offered opinions on a number of policy issues.

The Postal Service contributed actively to work within the UPU Terminal Dues Action Group (TDAG) to develop proposals for the industrialized country terminal dues system for the years 2004 and 2005. Terminal dues are the payments made to a destination country for the cost of delivering international mail. The 1999 Beijing Congress had approved a transitional two-tier terminal dues system, maintaining a flat rate per kilogram for developing countries and adopting a more cost-based system for industrialized countries for the years 2001 through 2003. The purpose of the April 2002 POC meeting was to decide the rates applicable for industrialized country mail exchanges for the years 2004 and 2005. As a result of the work of the TDAG and of the POC review process, the POC had to consider proposals ranging from those calling for moderate and gradual increases in rates to those calling for more substantial increases. The latter proposals would have required significant increases in international postage rates and would have had a negative impact on U.S. mailers. The Department of State led a consultation process with all stakeholders to develop the U.S. position on these proposals. The result was that the U.S. supported proposals calling for more moderate and gradual increases as the best way to continue moving

toward a more cost based system for industrialized countries. The ultimate POC decisions, however, were to reject any increases in terminal dues rates for industrialized countries for the years 2004 and 2005, except for modest increases tied to quality of service performance beginning in 2005.

Extraterritorial Offices of Exchange (ETOE) are facilities that a national postal operator establishes outside its country in the territory of another UPU member country. More than a dozen postal operators have set up some 60 to 70 such ETOEs around the world, with the largest concentration in the United States and Europe. Most ETOE operations are the result of postal operators' acquisitions or equity stakes in private commercial firms abroad. After consultation with the Department of State, the U.S. announced its policy regarding the terms for acceptance of ETOE traffic in the fall of 2001. ETOEs are strictly commercial entities and do not fulfill the universal service obligations of the UPU Convention in the foreign territory. Therefore, the traffic they generate abroad should be treated like any other traffic from commercial entities, that is, entered into the U.S. domestic mail stream under domestic rates and conditions, and not under UPU terminal dues. Several other countries announced similar policies. The Postal Service will continue to work with the Department of State to ensure that U.S. policy concerns are adequately addressed within the UPU regarding ETOE matters.

The Postal Service, Department of State, and Postal Rate Commission sponsored a joint study on the remail provisions of Article 43 of the UPU Convention and their effect on key U.S. stakeholders. Article 43 provides that a postal administration is not obliged to deliver mail items from a domestic sender that have been posted abroad for delivery in the sender's country at lower UPU terminal dues rates. An independent consultant firm completed an initial draft of the study in mid-2002. The final report is still under review and should be released after the three agencies have approved the final conclusions and distribution.

D. MAIL VOLUME AND SERVICE PERFORMANCE

1. MAIL VOLUME

TABLE 2.1 HISTORICAL AND PROJECTED MAIL VOLUME BY FISCAL YEAR

(billions of pieces)

	2001	2002	Projected 2003	Projected 2004
First-Class Mail	103.7	102.4	102.0	103.0
Priority Mail	1.1	1.0	0.9	1.0
Express Mail	.1	.1	.1	.1
Periodical Mail	10.1	9.7	9.4	9.6
Standard Mail	89.9	87.2	90.9	93.7
Package Services	1.1	1.1	1.1	1.1
International	1.1	0.9	0.8	0.8
Other	0.4	0.5	0.5	0.5
Total Mail	207.5	202.8	205.7	209.7

In 2002, the Postal Service suffered the largest volume decline in our history. An economic recession began in 2001; and its effects have continued through this year. Mail volume historically has tracked the economy, usually with some lag. The recession in the advertising market was particularly damaging to our volumes. Advertising billings actually declined in 2002 as the industry was more greatly impacted than the rest of the economy and began to show signs of recovery only at the end of the year. Since advertising mail has been the main source of mail volume growth in recent years, this decline in the advertising market seriously hurt 2002 mail volume growth.

With the possible exception of Periodicals, all mail categories also were affected early this year by the events of September 11 and the anthrax attacks. Both mailers and consumers became concerned about the security of the mail. Service disruptions resulting from these events caused mailers to delay or cancel mailings or to use alternate providers.

The 7.7 percent average rate increase implemented on June 30 further reduced volume growth, especially in competitive categories such as Priority Mail and Express Mail. This early implementation of the rate increase, however, brought in an additional billion dollars in revenue that flowed through to our bottom line.

The lagging economy reduced letter-size mail (First-Class and Standard Mail services) in 2002. Since virtually all Standard Mail and a significant portion of First-Class Mail contain advertising, these classes are

also sensitive to the state of the advertising industry. In addition, electronic diversion continues to eat slowly into the market share of the letter-size mail products. The continuing shift to categories with deeper worksharing discounts affects the revenues of letter mail products. Mailers continue to develop methods to sort and deliver mail farther down our processing stream, effectively doing part of the work involved in moving the mail.

First-Class Mail volume fell 1.4 percent this year. Electronic diversion continued to affect First-Class Mail and many analysts predicted a spike in the adoption of Internet bill paying in the wake of the anthrax attacks. In fact, evidence suggests that the rate of adoption has remained basically the same. In 2000, 4.4 percent of households paid bills over the Internet; in 2001, this figure rose to 7.5 percent. For 2002, it is 11 percent. The proportion of bills that consumers pay over the Internet has risen from 3.2 percent in 2001 to 4.2 percent, or less than half of one bill per household. Rather than Internet bill presentment, the main source of growth in electronic payments in 2002 was automatic deduction, which rose almost 30 percent. Mail is still vital to the payment processing system. With a slow economic recovery and continued electronic diversion, we expect First-Class Mail volume growth to be flat in 2003.

Standard Mail volume fell by 2.6 percent in 2002 as a result of the weakness of the advertising market and declined most sharply early in the year in the wake of September 11 and the anthrax attacks. Non-profit mail was especially affected as organizations whose philanthropy was not directed to the victims and survivors of the September 11 attacks pulled back fundraising efforts. Standard Mail volume is projected to grow just under 4 percent next year, accounting for most of our projected volume increase. This growth represents mailers returning to mail after the anthrax attacks as well as some recovery in the economy and the advertising market.

Priority Mail volume fell 11 percent this year, dropping more rapidly than the 8.6 percent decline experienced in 2001. Priority Mail volume dropped most sharply early in the year when prohibitions against packages being transported on commercial airlines disrupted the Postal Service's transportation network. Priority Mail growth was further hampered by the 35 percent price increases in this category since January 2001. Priority Mail service is part of the highly competitive expedited package market in which each competitor's actions affect the performance of all others. In 2002, such market-shaping actions included the expansion of the FedEx ground network to cover the entire nation and UPS' increased aggressiveness, evidenced by its new, high-profile ad campaign. The Postal

Service anticipates that Priority Mail volume will continue to fall in 2003, as the market responds to the 16 percent price increase of June 2002.

Total volume of Package Services declined 2.3 percent, although Parcel Post volume grew 5.1 percent. Most of this growth was in bulk-entry products. Some of this growth represents migration out of Priority Mail service, as mailers looked for more economical means of shipping their merchandise. In particular, the increasing use of package consolidation services enabled mailers to take advantage of drop-shipping discounts. Additionally, since it moves over the road, Parcel Post service avoided the negative impact of restrictions on airline parcel carriage. In 2003, growth in package services should be effectively flat, with Parcel Post growth of less than 1 percent.

Periodicals volume was down 4.3 percent this year, accelerating the long-term decline in household subscriptions. This reflected the large number of magazine titles that ceased publication during the recession. Remaining publications were hit hard by the shrinkage in the ad market. Publication weight, advertising pages, and per piece revenue all declined in 2002. The Postal Service expects volume to continue to decline in 2003 while the economy is sluggish.

International Mail volume declined 20.6 percent this year, a result of the worldwide recession and restrictions on mail carriage imposed after September 11. The global economy appears to be lagging that of the United States and in 2003, the Postal Service expects continued declines in International Mail volume. Customers will also explore alternative means to deliver international communications, further impacting this sector.

In 2003, the Postal Service expects total volume to grow about 1.4 percent compared to 2002. Overall, the Postal Service foresees that a sluggish economic recovery and the effects of the R2001-1 rate increase will restrain volume growth in 2003. Revenue will rise by around 5.7 percent, however, as the full effect of the June rate increases flows through.

2. SERVICE PERFORMANCE MEASUREMENT

First-Class Mail service performance results are measured through the Transit Time Measurement System (TTMS), which measures service performance from the time mail is entered into the system at an induction point until the time it is received in the home or small business. TTMS has been independently administered by PricewaterhouseCoopers under a contract with the Vice President and Consumer Advocate.

With the sale of PricewaterhouseCoopers' consulting unit to IBM, TTMS measurement activities will now be performed by IBM Business Consulting Services.

TTMS' main goal is to measure service performance from the customer's point of view. The information gathered determines the effectiveness of system performance in satisfying customer requirements. The External First-Class (EXFC) system is an external measurement system of collection box to mailbox delivery performance. EXFC continuously tests a panel of 463 ZIP Code areas selected on the basis of geographic and volume density from which 90 percent of First-Class Mail volume originates and 80 percent destinate. EXFC is not a system wide measurement of all First-Class Mail performance. The EXFC measurement system has been in existence since 1990. The independent EXFC system showed an average national overnight performance of 94 percent for 2002. National service performance for two- and three-day service commitment areas averaged 85 and 80 percent respectively.

Measuring customer satisfaction is an ever-evolving process. The Customer Satisfaction Measurement (CSM) process provides reliable and actionable information to Postal Service managers by identifying opportunities for improvement and focusing on overall customer satisfaction. CSM is composed of the following three components:

- CSM-R — measures residential satisfaction.
- CSM-B — measures business customer satisfaction.
- CSM-EVB — measures event-based customer satisfaction.

The CSM survey process supports the goal of the Voice of the Customer under CustomerPerfect! Customer satisfaction is measured independently by The Gallup Organization through a contract with the vice president and consumer advocate.

The CSM-R results (See Table 2.2) showed that 93 percent of the nation's households rated Postal Service Overall Performance as "Excellent," "Very Good," or "Good" for 2002.

A redesigned CSM-B survey was implemented in 2002 to better reflect business customers' expectations of delivery products and services and to better measure the success of the Postal Service's corporate strategies. The survey was designed to provide more actionable data to field managers.

For the CSM-B, National Accounts reported an overall performance rating of 92 percent for the year. These business customers have been identified as the Postal Service's largest customers. Approximately 250 accounts are designated as National accounts.

The Premier accounts reported an overall performance rating of 93 percent for the year. These are the second largest group of business customers. There are approximately 14,000 Premier accounts.

Business accounts reported an overall satisfaction rating of 91 percent for the year. Business accounts are all other business customers not identified as National or Premier account companies or sites.

TABLE 2.2 CUSTOMER SATISFACTION RATINGS
BUSINESS AND RESIDENTIAL PERFORMANCE IN 2002
PERCENT RATED EXCELLENT / VERY GOOD / GOOD

PERFORMANCE BY QUARTER	1ST	2ND	3RD	4TH
National Accounts	92	94	92	92
Premier Accounts	94	93	93	92
Business Accounts	91	91	90	90
Residential Accounts	93	93	93	93

E. MAIL DISTRIBUTION

1. AUTOMATION ACTIVITIES

The Postal Service continues to focus on automating mail distribution operations to improve efficiency and reduce costs. The foundation of this effort is based on barcode technology, which includes generating bar-coded mail, processing barcoded mail in automated operations, and adjusting the workforce as necessary to capture savings.

a. Letter Mail Automation Equipment and Software

In 2002, the Postal Service continued its campaign to improve automated processing of letter mail through deployment of additional hardware and software. New automation equipment is allowing postal operations to keep pace with growth.

During 2002, delivery bar code sorter-expanded capability (DBCS-EC) machines were deployed at three facilities. The DBCS-EC machines can process a portion of letter mail that is sorted manually today. This equipment can handle a wider range of mail than is currently possible, such as flimsy mailpieces and thick and heavy items. Deployment of all 84 DBCS-EC machines will be completed in early 2003.

Letter mail recognition rates continued to rise in 2002 as we deployed additional hardware and software upgrades for our existing multi-line optical character reader (MLOCR), delivery bar code sorter input/output subsystem (DIOSS), and remote computer readers (RCR) equipment. During 2002, we tested and deployed

improvements to 346 mail processing centers under the Recognition Improvement Program (RIP), which is an incentive-based program where the vendor is paid based on percentage of the incremental performance improvements. Improvements made this year under RIP raised the letter mail encode rate to about 88 percent while reducing the error rate by 1.3 percent. Future improvements will be made under the Letter Recognition Enhancement Program (LREP), which is projected to yield an additional 5-8 percent increase in overall system encode rate by mid-2004.

A contract was awarded to deploy wide field of view (WFOV) cameras as replacements for the aging and obsolete wide area bar code readers (WABCRs). The WFOV camera system will replace WABCRs on all existing DBCS, DIOSS, and Carrier Sequence Bar Code Sorter (CSBCS) machines. This camera system will be able to read information-based indicia (IBI) codes as well as POSTNET and PLANET barcodes currently being read by the WABCR. The WFOV camera system demonstrated a significant improvement over the WABCR in reading POSTNET and PLANET barcodes during the previous year's competitive test. National deployment is scheduled to begin in 2003.

2. REMOTE ENCODING CENTERS

When all electronic means of resolving address information have been exhausted, the mailpiece image is sent to a remote encoding center (REC) where operators use video display terminals and keyboards to process the address information.

Providing partial RCR results with the image often allows the operator to process the address with minimal keystrokes. The RBCS sends barcodes electronically to a barcode sorter, where the barcode is applied to the mailpiece, keeping it in the automated mail stream.

In 2002, we closed an additional five of the original 55 stand-alone RECs due to continued improvements in our automation read rates. This brings the number of stand-alone RECs to 20. We continue to look into other consolidation options that could result in the closure of additional RECs in the future. At the same time, we began the process of moving flat mail keying from the plants to the RECs and are planning to key parcel images generated by the Automated Package Processing System (APPS) program at the RECs.

3. PROCESS IMPROVEMENTS

a. Sorting Technology

During 2002, the Postal Service completed deployment of 353 CSBCS stacker modification kits that had begun the prior year. This 21- or 25-stacker addition provides the CSBCS with the capability of sorting to a greater number of delivery points even though the volume of mail in the route (or combination of routes) may not have changed. Bin overflows, manual processing requirements, processing costs, and delays in getting mail to the carrier have been reduced.

The 300 existing Integrated Data Systems (IDS) were upgraded this year. This upgrade allows the continuous collection of data from all mail processing equipment, including flats sorters, small parcel and bundle sorters, as well as material handling equipment in a facility. This expanded capability allows Postal Service managers to better match equipment and staffing to workloads, which improves productivity and reduces operating costs. The data collected also provides more accurate information on mail volumes and equipment utilization. More accurate volumes by destination and availability for dispatch make it possible to reduce transportation costs. Equipment utilization data also provides the basis for activity-based costing models to better control operating costs within the Postal Service.

b. Undeliverable-As-Addressed Mail

During 2002, the Postal Service awarded a contract for the production and installation of Phase I of the Postal Automated Redirection System (PARS). PARS automates the handling of undeliverable-as-addressed (UAA) letter mail more efficiently than today's process. The UAA mail is intercepted earlier in the sorting process, resulting in a reduction in not only total handlings and processing costs but, at the same time, improving service. The system notifies mailers of patrons' address changes electronically for mailers that subscribe to this service and provides hard copy notification for mailers who do not subscribe. Both services generate revenue for the Postal Service. The system also automates processing of change-of-address forms.

Phase I includes 53 processing plants and 86 Computerized Forwarding System (CFS) sites which forward nearly one-fourth of all forwarded letters. PARS Phase I deployment is expected to begin in July 2003 and end in May 2004. The Postal Service expects to complete Phase II, which covers deployment to the remaining sites, by the fall of 2006.

c. Advanced Facer Cancellor System Upgrade

The Advanced Facer Cancellor System (AFCS) is the primary letter canceling machine used in our processing and distribution centers. During 2002, the Postal Service awarded a contract to enhance the capabilities of 358 of our 1,086 AFCSs by equipping at least one at each major processing facility with a video facing modification kit.

These kits will enable the AFCS to process mail that does not have phosphorescence in the stamp, indicia, or meter mark. This modification will allow mail that is rejected by the AFCS to avoid the expensive manual handling required today to face and cancel the rejected mail. Deployment was expected to begin in November 2002.

d. Flat Mail Automation

1. Automated Flat Sorting Machine 100

An important addition to our automation processing capability has been the automated flat sorting machine (AFSM) 100. The enhanced features of this machine have enabled us to expand the benefits of automation to the flats mailstream. These features include three automatic feeding stations yielding a throughput of over 17,000 pieces per hour, OCR reading with online video encoding (i.e., real-time keying) of OCR rejects, and a tray take-away system with adaptability to robotic handling systems. This enhanced processing equipment has provided additional flat sorting network capacity. A second phase, deployment of 362 machines that primarily replaced our older and less capable FSM 881s, was completed in April 2002. Phase II software enhancements have increased the system read rate to nearly 90 percent. This includes the Secondary Address Reader (SAR) enhancements tested during 2002 but not yet deployed. The final testing phase and hardware deployment for SAR is currently underway. The Postal Service also expects to begin deployment of OCR improvements in early 2004 that will further improve the machine's performance.

2. Flat Mail Video Coding Operation at Remote Encoding Centers

The deployment of the AFSM 100 production equipment has provided the processing plants with the capability to process OCR-rejected flat mail pieces using the AFSM 100 flat mail video coding systems (VCSs). The rejected mailpiece images are lifted at the machine and sent to the VCS where a keyer views and processes the images online. The AFSM 100 VCSs were initially installed in the processing plants. At one time, Postal Service plants managed over 200 individual

video coding rooms. However, recent advancements in the technology have made it possible to key images off-site in near-real-time at RECs. Consequently, most plants have relocated their video coding operation to the RECs, where flats are keyed more efficiently. This relocation also eliminated the need for individual plants to manage and staff the coding function.

During 2003, the Flats Remote Encoding System (FRES) program will be deployed. It will further improve the efficiency of the AFSM 100 REC keying operation by reducing the number of flats keyers required, and by managing and balancing their workload. In addition, this effort will allow us to consolidate and streamline the flat mail video coding operation, providing increased productivity and improved service.

3. Automated Flats Feeders and Optical Character Readers for Flat Sorting Machine 1000

During 2002, we started deploying automated flats feeders and optical character readers (AFF/OCR) on all flat sorting machine (FSM) 1000s. The FSM 1000 can process mail, such as newspapers and poly-wrapped material, which cannot be handled by our primary flat sorter, the AFSM 100. The AFF/OCR modification provides higher machine throughputs and lower staffing requirements. These installations should be completed during 2003. Also during 2003 we expect to begin deploying OCR improvements that will enhance the machine's performance.

e. Parcel Automation

The increase in barcoded package volume is driving efforts to improve processing efficiency in parcel sorting operations. Deployment of Singulate, Scan, Induction Units (SSIUs) continued during 2002 as we deployed 14 SSIUs to seven bulk mail centers (BMCs). Each BMC will receive two SSIUs to improve the singulation process and automate induction of barcoded parcels onto the BMC sortation equipment (i.e., secondary parcel sorter). The device allows parcels to be sent, one at a time, through a dimensioning unit, a weigh-in-motion scale, and then through a scanning tunnel that will read the package barcode. Then, packages are inducted automatically onto the sorter. This is greatly reducing the labor needed to process parcels. When deployment ends in late 2003, 19 BMCs will be using SSIUs in their daily processing operations.

During 2002, the Postal Service continued to develop a next-generation sorter that will take advantage of the latest technology to distribute small parcels and bundles. This new equipment, known as the Automated Package Processing System (APPS), will automate the existing package processing network by

providing automatic package singulation and address reading through an optical character reader/bar code reader/video coding system (OCR/BCR/VCS). The APPS includes automated container unloading to support the high throughput requirements. The system will be compatible with the Postal Service's Information Platform and will support in-route tracking of Delivery Confirmation codes. Competitive tests were completed in April 2002 and a contract for 74 production systems is expected to be awarded in late September 2002. Delivery is expected to begin in February 2004 and end in June 2005.

f. Business Mail Acceptance

The Postal Service has automated the labor-intensive process of evaluating bulk mailing eligibility for worksharing discounts. The Mailing Evaluation Readability and Lookup Instrument (MERLIN) verifies nearly all mail preparation requirements for both letters and flats. It produces all reports necessary for mailing acceptance and provides images of preparation problems for the mailer to support process improvements. A total of 1,203 units have been purchased under this program. By the end of 2002, 346 MERLINS had been deployed. Deployment will continue through 2003 and should be completed in early 2004.

4. MATERIAL HANDLING

Material Handling continues to be a significant target of opportunity for technology investments to reduce operating costs and improve productivity and efficiency. Development and production activities during 2002 included equipment for flats, receipt, dispatch, and material transport operations within our processing plants.

During 2002, Phase I of the Universal Transport System (UTS) completed acceptance testing in Fort Myers, FL. This system expands the processing of product lines beyond that of traditional Tray Management Systems, which only process letter trays and flats tubs. The UTS handles these product types as well as sacks, parcels, bundles, and mail cartridges. Phase II requirements, including AFSM 100 support, prototype flat tub unlidders, and letter tray unsleevers were integrated with the UTS prior to acceptance testing. Featuring state-of-the-art material handling technologies and information systems, this equipment enhances the ability of the Postal Service to contain work hour growth while providing improved work processes and information flow within the processing plants.

Research and development of flat tub lidding equipment was completed, and competitive testing of different models preceded the preparation and planning

for nationwide deployment of this new technology in 2003. When mail is ready for dispatch from a processing facility, trays of mail must have sleeves and flat tubs must have lids with strapping applied to both to secure the mail during transport. The Postal Service can now automate this process. Conversely, when mail arrives at a processing facility, the strapping must be cut so the sleeves and lids can be removed for access to the mail for processing. Development of the prototype flat-tub unlidding and mail tray unsleeving technologies have been completed and field-tested for operational reliability. Preproduction activities will proceed with national deployment to follow in 2003–2004. Deployment of the unlidding and unsleeving technology will target opportunities for cost reduction and avoidance in receipt operations and will provide ergonomic benefits.

The Postal Service continues to pursue cost reduction opportunities in flat mail manual handling operations with Human Assist technology while improving the ergonomics of these repetitive processes. Testing of prototype lift assist devices is promising. Flat sorting machines equipped with the devices, are operating with crews reduced from five to four persons. Additional applications have been investigated, including extending the technology to handling new larger containers from major mailing customers. The new, larger containers have removed the need for shrink-wrapping before sending to the Postal Service and removal of shrink-wrapping upon arrival at postal processing centers. This application has been explored in cooperation with printers and mailers through workgroups of the Mailers Technical Advisory Committee (MTAC).

The Postal Service has identified next-generation material handling systems and subsystems that are in concert with opportunities outlined by the Breakthrough Productivity Initiatives (BPI) program. Equipment, developed as a result of this program, will expand the list of approved modules for tray transport, staging, subsystem processing, and communications. This equipment will primarily target cost reductions in incoming and outgoing dock operations, and receipt and dispatch operations inside processing facilities.

A major accomplishment of the past year has been the successful transition from using common carriers to transport Priority Mail to using a combination of FedEx planes and an enhanced ground network. This required updating some of the material handling equipment in order to produce identification and tracking codes that could be used by the new carrier. By quarter 4, the reduced reliance on common carriers for air transport has resulted in record service levels for Priority Mail, and a more predictable outcome. Consequently, there

has been a greater awareness of the value of the information generated by the new coding strategies, with benefits in the improved manifesting and work-in-process tracking than previously available. This has implications for use in transportation modes other than air transport. These opportunities will be the subject of research and development efforts in 2003.

The Postal Service has made significant investments in designing, deploying, and using many new material handling technologies in the past few years. There is now a formal program for supporting these investments to ensure that the maximum life-expectancy is achieved and the equipment is upgraded with software and hardware enhancements as appropriate technologies become available in an industry that will benefit our processing operations. Three technologies with deployment activities during 2002 are as follows:

a. Low Cost Tray Sorter

The low cost tray sorter (LCTS) sorts letter trays and flats tubs in a variety of different inbound, outbound operations in processing and distribution centers (P&DCs), bulk mail centers (BMCs), and air mail centers (AMCs). These systems are configured to the unique needs of each particular processing facility. Deployment of this equipment began in 2002 and will be completed in 2003.

b. Automatic Airline Assignment

The Automatic Airline Assignment (AAA) system automatically assigns sleeved and strapped letter mail trays and flats tubs to airline flights. Deployment of 220 systems was completed early in 2002. A related material handling device, the Semi-Automatic Scan Where You Band (SASWYB) unit, provides a semi-automated means to scan the distribution label, weigh the item, generate a dispatch and routing tag to be attached by the operator, and discharge the mailpiece. The Postal Service deployed 125 SASWYB units in 2002.

c. Automatic Tray Sleever

The automatic tray sleever (ATS) is a feed-paced machine that automatically applies sleeves to all sizes of fiberboard or plastic letter trays used in Postal Service operations. The standard ATS configuration is a double-sided unit, which can apply two sleeve-types at a time from two pre-loaded sleeve cartridges. Deployment of 123 ATSs began in 2001 and was completed during 2002.

5. SUPPORT SYSTEMS FOR MAIL PROCESSING

Current cost-reduction initiatives focus on maintaining critical systems and replacing obsolete ones.

a. Transportation Information Management Evaluation System

The Transportation Information Management Evaluation System (TIMES) is a computerized data collection and reporting system designed to assist management in measuring transportation efficiency. The system provides the Postal Service with performance and utilization data used to improve scheduling, planning and cost tracking of highway contract routes (HCR) and postal vehicle service. The TIMES application allows the Postal Service dock clerks to collect data about the arrival and departure of mail truck transportation and to communicate real-time information to other Postal Service processing facilities. A receiving facility can view information about mail contents of its incoming transportation to make appropriate staffing adjustments. TIMES reports generate information to measure data input, transportation and utilization performance and is currently operational in approximately 502 processing and distribution centers, airport mail centers, and hub and spoke program facilities.

b. Dedicated Air Tracking System

The Postal Service Air Operations group controls the consistency of the movement of mail on postal dedicated aircraft through several air networks including the Daytime Dedicated Network (DNET) and the Christmas Dedicated Networks (CNET). The Dedicated Air Tracking System (DATS) provides the Postal Service with the information and tools to monitor air and truck operations within these dedicated air networks, to supervise air cargo contractors involved in moving the mail, and to supply accurate and timely reports to Postal Service management. DATS allows users to track and manage mail from either a hub or point-to-point (PTP) network perspective.

DATS provides real-time operational data that allows users and managers to manage the transportation of mail and to review the current day's operations. The information and automated tools provided by DATS assist users in ensuring that service standards are achieved, dedicated aircraft are used effectively, and operational alerts are dealt with on a timely basis.

DATS is capable of managing dedicated Postal Service air networks 24 hours a day, every day of the year, providing a wealth of timely operational information to all levels of postal management. It represents the

latest in computer technology and provides the Postal Service with a solid foundation for further improvements in the management of its dedicated air networks.

c. Surface Air Management System

The Surface Air Management System (SAMS) replaced the Air Contract Data Collection System in 2001 as our new mail-assignment engine. SAMS provides the ability to assign mail to indexed surface and air routes, and to allocate capacity by mail classes, and track manifests online. The system also provides an individual routing assignment, with unique serial identification for each item presented for dispatch. The routing assignment and serial number are barcode printed on a self-adhesive dispatch and routing tag, which is applied to the item being dispatched. The dispatch and routing tags are scanned, providing visibility for sacks, trays, and large parcels as they are handed-off to transportation suppliers until delivery back to the Postal Service at destination. This data is used for internal quality and performance monitoring and contractor compliance measures.

d. Surface Air Support System

Since deployment in 2001, the Surface Air Support System (SASS) has integrated scan data received from transportation suppliers with existing transportation systems and has ensured service performance accountability and accurate payment verification. With SASS, the Postal Service created a central visibility database to receive assignment data from SAMS and scan data from Postal Service facilities and from our transportation suppliers. In 2002, the Enterprise Data Warehouse became the repository for data flowing from the SASS database. The data warehouse will also serve as the reporting tool for SASS data, giving the Postal Service better data regarding service performance for transportation suppliers, as well as information regarding mail transported on a specific flight, truck, or train.

F. DELIVERY UNIT OPERATIONS

1. DELIVERY POINT SEQUENCING

Today, over 9,700 zones receive their mail in delivery point sequence (DPS) order. These 9,700 zones account for over 85 percent of all city carrier routes and 69 percent of rural routes, with each route averaging approximately 1,335 DPS letter pieces daily. Table G-1 shows the total number of delivery points for 2002.

TABLEF-1:

Delivery Point	Amount (millions)
City	84.2
Rural	33.3
Post Office Box	19.8
Highway Contract Route	2.1
Total	139.4

2. DELIVERY OPERATIONS INFORMATION SYSTEM

The Delivery Operations Information System (DOIS) replaces the Decision Support Information System, the Route Examination System, and the Projected Office and Street Time System. DOIS was designed to provide actionable data to the delivery unit supervisors, assisting them in managing the office activities, planning of street activities and managing the route inspection and adjustment activities. Used properly, the data provided by DOIS will assist the delivery unit supervisor in making sound business decisions related to carrier operations.

The Board of Governors approved a plan to deploy the DOIS business solution in August 2000, with deployment to the first three areas beginning in 2001. Nationwide deployment was completed in August 2002, seven months ahead of schedule.

More than 6,900 delivery units have been activated and over 20,000 users were trained to use DOIS.

3. MANAGED SERVICE POINTS

The Managed Service Points (MSP) program is intended to improve the time of day consistency of mail delivery to customers. The program uses Mobile Data Collection Devices (MDCD) to scan barcodes at the delivery unit and on specific points along the carrier's line of travel. This allows supervisors to know if mail is being delivered within the expected time frames, ensuring consistent time of delivery to the customer.

In 2002, we deployed MSP to 95 percent of the targeted routes. The MSP goal for 2003 includes a 95 percent scanning rate for both the office and street scans on all MSP city routes. Achievement of these goals will provide sufficient office and street data to effectively evaluate consistency of delivery to our customers.

G. STAMP SERVICES

1. STAMP PROGRAM

The Postal Service produced a wide variety of commemorative and definitive stamps during 2002. The issued stamps began as proposals from the public that were later researched, reviewed, and subsequently recommended by the Citizens' Stamp Advisory Committee (CSAC). CSAC receives annually, through the Office of Stamp Services, proposals from approximately 50,000 individuals and organizations each year for subjects to be considered as stamps. The stamps issued during 2002 recognize a variety of great people, and their achievements in the American experience, nostalgic and cultural American icons, significant events and the natural beauty and wildlife of the United States.

The 2002 commemorative stamp program consisted of 23 stamp issues. Additionally, on June 30, 2002, a rate change was implemented, requiring the inclusion of nine definitive stamps, one stamped card, and two envelopes. Combined with the commemorative program, a total number of 32 stamps were issued during 2002.

One of the most acclaimed commemorative issues of the year was the Greetings From America series of 50 state stamps. Within three months, almost all 200 million stamps were sold. This stamp issuance generated a great deal of publicity nationwide. In response to an overwhelming demand from the public, these stamps were reissued at the new 37-cent First-Class rate in October 2002. Also, in response to repeated public requests, we issued stamps featuring four teddy bear designs which proved very popular with customers. In addition, Cary Grant was the eighth person honored in the *Legends of Hollywood* series. Other famous Americans honored during the course of the year include the great American composer, Irving Berlin; Harry Houdini, the famous escape artist and magician; Andy Warhol, the king of Pop Art; two of America's pre-eminent poets, Langston Hughes and Ogden Nash; surfing legend Duke Kahanamoku; and four distinguished Women in Journalism, Ida Tarbell, Ethel Payne, Nelly Bly, and Marguerite Higgins.

In addition, a pane of 20 stamps in the Classic Collection series honored the Masters of American Photography. This issue included works produced over the past 150 years by such masters as Ansel Adams, Dorothea Lange, Edward Weston, and Walker Evans. The Salt Lake City 2002 Winter Olympic Games were honored with a block of four stamps depicting some of the more popular winter sports including figure skating, hockey, snowboarding, and ski jumping. The 200th anniversary of the founding of the United States Military Academy at West Point was also honored. Two social awareness stamps were issued carrying important messages on Mentoring a Child, and to Neuter or Spay your pets. Stamp collectors were pleased with the issuance of reproductions of the rare Hawaiian Missionary stamps of 150 years ago and National Stamp Collecting Month, which is held every October, was appropriately kicked-off in a fun fashion with the issuance of the four American Bats stamps. Special occasions were covered with the issuance of the Happy Birthday stamp and the annual Lunar New Year stamp, as well as the Christmas and Holiday stamps, this year featuring snowmen ornaments. Also, the EID, Hanukkah, and Kwanzaa stamps in the Holiday Celebrations series were reissued at the new 37-cent First-Class Mail rate. The ever popular theme of wildlife was covered in two issues, the first being a stamp honoring the work of John James Audubon, featuring two tanager birds. The second issuance was the fourth in the series of popular Nature of America stamps, this time honoring the Longleaf Pine Forest. All in all, the 2002 stamp program proved very popular with the American public.

The Postal Service continued to experience strong sales of the Breast Cancer Research Stamp and issued a second semipostal stamp on June 7, 2002, honoring the Heroes of 2001. This stamp pays tribute to the emergency relief personnel who died or were permanently disabled in the line of duty in connection with the terrorist attacks of September 11, 2001. Both stamps sell for 45 cents. The Breast Cancer Research Stamp was repriced from 40 cents to 45 cents on March 23, 2002. For both semipostals, the difference between the one ounce, First-Class letter rate and the price of the stamp is provided to designated organizations.

The development of the 2002 stamp program was successfully completed earlier than previous years. This accelerated schedule afforded the earlier development of stamp and retail products and the earlier release of designs to the media, field offices, and the public.

2. PRODUCTION ACTIVITIES

Significant production reductions were realized which resulted in measurable savings in the stamp production budget.

- Stamp production was able to reduce the inventory carry-over of rate-change transitional stamps by approximately 54.8 percent, between the September 24, 2001, rate case filing and the June 30, 2002, rate implementation. As of September 19, 2002, stamp distribution offices had approximately 228.491 million stamps in inventory. By comparison, for the last rate cycle in which alpha stamps were used (1999), the inventory carry-over for the H stamps was 4.113 billion stamps. The current carry-over represents a 94.44 percent reduction from the 1999 totals and an overall saving of \$12 million dollars.
- Additional savings have been realized by competitively bidding many of the commemorative stamp issues among the private supplier base. An overall cost reduction of 16 cents per thousand was attained which resulted in a savings of \$3.5 million compared to costs in 2001. In addition, by reducing the stamp commitment to the Bureau of Engraving and Printing we have reduced an additional \$6.5 million from 2001 cost.
- The Postal Service successfully met all stamp production and distribution commitments for both the commemorative and definitive stamp programs.

3. STAMP FULFILLMENT SERVICES ACTIVITIES

During 2002, Stamp Fulfillment Services (SFS) fulfilled 1.4 million customer orders, totaling \$105 million in revenue. Forty-five percent of orders were placed via the Internet and generated 35 percent of the revenue. The remaining 55 percent of order volume was generated via USA Philatelic catalog mail orders (32 percent) and 800-STAMP-24 telephone orders (23 percent). Also, SFS processed 189,000 personalized envelope orders for \$69 million in revenue. Total revenue flow at SFS for stamp sales, envelopes, consignments, LibertyCash, and product sales was \$872.6 million in 2002.

H. LICENSING PROGRAM

The Postal Service employs Equity Management Incorporated (EMI) as the exclusive worldwide licensing agency for the Postal Service. Over the past two years, the Postal Service has been working more pointedly to leverage its intellectual property (e.g., trademarks, business processes, icons, stamp images, technology) as marketable items that can generate licensing revenue for the organization.

In August 2002, the Postal Service republished its enhanced corporate licensing policy through the Postal Bulletin for the internal audience and the Federal Register for the external audience.

The licensing policy, along with Frequently Asked Questions about licensing, can be accessed through the Postal Service Intranet at <http://blue.usps.gov/corporate/licensing> and on the external website at <http://www.usps.com/history/licensing/>.

During 2001, 17 new long-term licensing contracts were executed for merchandise sold in retail venues. Because most licensing ventures can take up to 18 months to ramp up and generate royalty revenue, the year 2002 has brought to fruition some worthwhile brand extension initiatives through high quality products. These included a contract with FirstUSA Bank for an employee affinity-credit card.

Lands' End also became a licensee, marking the beginning of a corporate dress program that adheres to the integral objectives of licensing: to protect the brand while extending its use in the marketplace. As a result of the ongoing working alliance with Lands' set a new standard for corporate apparel use that eliminates the misuse of the corporate signature on everything from t-shirts to Polo-style shirts to jackets and beyond.

Additionally, the Postal Service signed an interagency licensing agreement with the U.S. Mint to produce collectible products using the 50 state quarters and the Greetings From America stamps. Coming together to develop a quality product already heralded as a logical mix of numismatics, philately, and complimentary licensed images, the Postal Service and the U.S. Mint team will launch the product during the 2002 winter holiday season.

Of note are the stamp ingots produced by Postal Service licensee, Hallmark Collections, Ltd. The new United We Stand collection features 25 stamps that embody the unified spirit of this nation in a beautifully ornate, gold-plated format, encased in a velvet-lined cherry wood case designed to protect the ingots for generations. Product launch for the ingot collection is set for the 2002 winter holiday season.

The Postal Service will continue to seek out unique licensing opportunities that best represent the brand in key retail arenas, while showcasing the collection of historical marks and images. The value of Postal Service intellectual property can only increase as licensing becomes second nature among the vast canvas of Postal Service employees, who truly represent the first line of defense against brand infringement.

I. COMMERCIAL SALES

The Sales organization is responsible for the development, implementation and evaluation of all commercial sales and account management plans, programs, and policies nationwide. The objective is improved retention and growth, effective and efficient customer messages across all selling points and improved levels of customer satisfaction resulting in an expanded customer base. Sales priorities include:

- Optimize the effectiveness of the Sales channel and meet customer needs.
- Grow high contribution revenue from existing managed accounts.
- Deploy new channels to identify and grow customer base.
- Understand the root causes of leakage and take appropriate corrective action.
- Improve Sales channel effectiveness.
- Improve customer satisfaction.

TABLE I-1 2002 REVENUES MANAGED BY THE SALES CHANNEL:

National Accounts*	\$14.5 Billion
Premier Accounts**	\$19.9 Billion

* The approximately 250 largest mailers

** The approximately 14,000 next largest mailers

1. BUSINESS SERVICE NETWORK

The Business Service Network is a nationwide network of service contacts that are responsive to the service needs of National and Premier customers (established accounts) through a single point of contact for resolving local customer service issues. The nationwide network is focused on building better customer relationships through superior customer service, communications, and information to our customers.

2. CUSTOMER SERVICE EXCELLENCE TRAINING

During 2002, Business Service Network Headquarters and field personnel received comprehensive training to improve their communications and relationships with our managed National and Premier customers. Providing excellent customer service improves customer satisfaction and leads to revenue stability.

3. CUSTOMER RELATIONSHIP MANAGEMENT

Customer relationship management (CRM) is building profitable customer relationships while increasing the effectiveness and efficiency of the Postal Service. While there are many meanings of CRM, our strategy includes basic principles that are commonly found throughout industry:

- Align people, processes, and technology to build one view of the customer and one view to the customer.
- Increase knowledge about customers regarding who they are, their value, needs, preferences, and behaviors in order to differentiate them and treat them more effectively. Ultimately customers want to be treated as individuals, with unique needs. The movement toward self-service and customization is a hallmark of the type of treatment strategies in customer relationship management.
- Use customer knowledge to improve internal processes and create outstanding customer interactions and experiences. The focus is typically on the channels through which customers interact: customer services, marketing campaigns, and sales.
- Develop long-term, mutually beneficial business relationships to efficiently gain and retain profitable repeat business. To add value to the customer, the Postal Service can either reduce the cost of doing business and/or improve the quality. This must be done cost effectively.

In 2002, a unit was established in the Service and Market Development Office of the Marketing department to integrate these principles into the way we do business with our customers, primarily through improved technology. These assist our ability to identify customers, differentiate among their needs, interact with them and customize as necessary.

A business portal through which our largest customers can access multiple Postal Service systems is under development. This one-view, one-stop-shop for Postal Service information and access to systems such as PostalOne!, Confirm, ADVANCE, Centralized Account Processing System (CAPS), and Drop Shipment Appointment System (DSAS) improves the customer experience around the interact component. End-to-end, our Business Service Network will gain improvements through new technologies that provide both web and telephone-based service. The result will be improved data integration, more customer service options, access to service 24 hours a day, seven days a week, and a better ability to manage the flow of information between the customer and the service representative. This end-to-end program builds on the identify and differentiate capabilities and will add to the interactive quality component of value for the customer, at a more cost-effective rate for the Postal Service.

J. RETAIL PROGRAMS: BUILDING THE CORE

1. RETAIL SALES

Retail is the way most Americans buy and use postal products and services. Each day, over seven million Americans visit our Post Offices and contract postal units. The vast majority of these customers perform the very basic functions of buying stamps, mailing packages, and collecting mail from their Post Office boxes. Many more obtain stamps or other Postal Service products by mail, online, through our vending equipment, and through supermarkets and other authorized agents. The primary role of the Retail function is to make it easy for them to do business with us, while making the transactions increasingly productive and profitable for the Postal Service.

This provides local access for the core product applications of correspondence and transaction mailing, domestic and international package shipping, and special services, including delivery through more than 18 million Post Office boxes. Major customer segments are small businesses and consumers (customers using the mail for personal, rather than business reasons). It is estimated that consumers and small firms generate Postal Service retail revenue of \$7.4 billion and \$8.7 billion, respectively (meters, permits, and corporate accounts not included).

A comprehensive retail awareness program informing customers that postal services are closer than they may realize is in effect. Customers can access our serv-

ices through our traditional Post Offices, stations and branches as well as through alternatives such as contract postal units, vending, on-line services, and consignment locations.

2. MARKETING CALENDAR

Although the Postal Service has a straightforward product line, many of our customers are not familiar with some of our basic services or how to best use them. Addressing this need for basic product information is central to retail marketing activities. A principal tool in this effort is the Retail Marketing calendar, a tightly managed 18-month schedule of planned promotions, activities, and events that help to guide our customers and employees through major mailing seasons. The calendar also helps to support ongoing promotions for products such as Express Mail and Priority Mail by presenting basic information at a time customers are most likely to buy and use the services.

Although the Postal Service has achieved success with its product information programs, until recently, our efforts have been focused largely on consumers. Several efforts were initiated to use our established relationships within the small business community to assist small businesses with their mailing needs and generate new revenue. These include building a response infrastructure that ensures customer follow-up and an ongoing relationship with the customer.

Approximately 89 percent of all retail revenue and 96 percent of all retail operating expenses accrue from the Postal Service's classified Post Office and contract unit full-service options. They are augmented by Stamps by Mail (SBM), over 30,000 revenue-generating vending machines, and stamp sales at thousands of commercial retail outlets and ATMs.

3. RETAIL: NEW SOLUTIONS, NEW PARTNERS

The Postal Service faces an ever-changing marketplace. New services and business arrangements are necessary to expand our customer base and meet the growing needs of our customers.

Retail continues to expand programs such as Ready Post, which are prepackaged shipping products designed to make shipment preparation easier, and Dinero Seguro®, an electronic money transfer service to Mexico, to capture incremental revenue. We are also examining a Hold for Pick Up concept that would enable shippers the ability to designate specific Post Offices where packages would be held for customers to pick up. A major market for hold services, for example, are

large commercial customers who routinely make urgent shipments for employees to pick up early in remote locations.

In addition to the development of new solutions for our customers, creating agreements with business partners and other commercial carriers that help to capture the profit potential of our retail network will help us to create sustainable net revenue for our organization. For example, the drop box agreement signed with FedEx not only provides the Postal Service with a significant amount of new revenue but it also leverages our retail network.

A new partnership with Hallmark Gold Crown Stores will be implemented in January 2003, providing consumers with limited postal services, including First-Class Mail, Priority Mail and some special services.

Customers will have the convenience of paying by credit card for Express Mail corporate accounts during a test in four district markets. Accepting credit card payments from online customers and frequent shippers who use Express Mail and Priority Mail services is also being considered.

Co-locating retail services with business services retailers is planned for testing to help small businesses grow using postal products and services.

4. RETAIL ACCESS: REACHING THE CUSTOMER

Today's society demands the convenience of one-stop shopping solutions. In response, the Postal Service is making strides to develop convenient alternatives to Post Offices that assist the customer with their mailing needs. Instead of requiring customers to come to us, the Postal Service will instead serve them where they live, work and shop. This means moving from a brick and mortar strategy to one that integrates our physical branch network into a flexible set of customer contact options (e.g., on the Internet, through letter carriers, through partnerships, through other nonpostal retail outlets, etc.).

Contract postal units (CPUs) and other commercial agents and partners allow the Postal Service to reach customers at times when Post Offices are deemed inconvenient or are closed. Typical locations for these units are shopping centers, local malls, and other locations that customers may frequent. Extended evening, weekend, and holiday hours of these facilities provide Postal Service customers with the utmost convenience. Our research tells us that customers prefer to combine

errands at one location. The Postal Service will, therefore, be targeting grocery store chains and convenience stores as potential full- or limited-service contract units.

Similar to CPUs, new services are being developed to implement basic mailing services, First-Class Mail and Priority Mail under 20 pounds, into additional retail store locations. This will not only give postal customers more access channels to postal services, but it will provide them with those services at Post Office prices.

The development of mapping and functional analysis tools has significantly aided in finding optimum locations for the alternative access channels listed above. Mapping allows the Postal Service to analyze specific areas of the country, and make customer-focused determinations for the placement of CPUs and other new services.

As ever, the Postal Service will continue its convenient Stamps on Consignment program, which makes stamps available through participating retailers such as supermarkets, drug, convenience store as well as ATM's though many financial institutions. Other alternatives include Stamps by Mail, which is being revamped for added convenience, the Postal Store at www.usps.com and Stamps by Mail at 1-800-STAMP-24.

5. POINT-OF-SERVICE ONE

The vision of the Point-of-Service (POS) ONE system is to provide customers, retail associates, and Postal Service management with the most effective retail sales, service, reporting, and decision support functionality that conveys value to our customers and enables a service orientation for our employees.

POS ONE is replacing current integrated retail terminals (IRTs) with state-of-the-art hardware and software, along with support services and training. Postal Service customers receive accurate information about available products and services and have immediate access to options and cost data to easily make informed decisions. Retail associates receive timely and reliable information regarding new products and services, updates to policy and procedures, and corporate direction. Managers and supervisors have easy access to performance data that enables them to make more informed decisions regarding day-to-day operations.

POS ONE is currently in place at 9,659 sites, providing detailed transaction data for approximately 74 percent of walk-in revenue for postal services. Funding approval has been given for Stage 3 to begin implementation in mid- to late 2003, which will expand POS ONE to approximately 15,000 sites.

POS ONE has enabled the development and implementation of the retail data mart. The data mart provides easy access to critical business information used for operational planning as well as sales and market analysis. Information about workhours and productivity is readily available for decision making and planning purposes. Transaction data about Postal Service products and services is easily available for analysis, strategy development, and planning.

6. RETAIL OPERATIONS

Comprehensive changes were introduced in 2000 to support a strategic shift in the way retail employees perceive their role in providing excellent customer service. Programs and tools implemented included new position descriptions and qualification standards, new job titles, a highly customer-focused training program, and newly designed uniforms. The momentum created by these changes continued in 2002 with implementation of additional tools and support.

With the activation of the Retail Data Mart, reports and information critical to making optimal business decisions at the unit level are now available in POS ONE offices. This level of information was previously inaccessible. Training for front-line supervisors was developed that focuses not only on skills required to use the Retail Data Mart, but also on best practices and actions required based on performance measured in a few key reports. In order to quickly deliver this training at the lowest cost, the Postal Service used distance learning technology. This course represents the first broad application of the distance learning format for a significant number of field employees. Another “first” is the capability built to link individual training evaluation to on-the-job performance that is measured in terms of business results, such as increased special service retail revenue and efficient staffing of retail operations.

7. SELF SERVICE AND ACCESS MANAGEMENT

During 2002, Self Service and Access Management (SSAM) office continued to focus on improving performance, increasing access points for consumer stamp purchases, and generating revenue. The office continued to emphasize increasing consumer awareness of alternative locations for stamp purchases. The Self Service office is working with large retail chains and other retail locations that complement our marketing programs.

Approximately 9 percent of retail revenue is generated from self-service vending. During 2002, the Postal Service focused on improving customer satisfaction (increased by 1 percent) and reducing the number of out-of-date machines (decreased by 20 percent).

a. Provide New Services

The Postal Service continued the pilot test of the Automated Postal Center (APC). The APC is a self-service kiosk that enables consumers to weigh, rate, print postage (using information-based indicia (IBI) technology), and mail packages. It also offers the ability to purchase sheetlets of stamps and to obtain general mailing information. The APC has the capacity to provide approximately 80 percent of the commonly requested postal transactions in a self-service environment. This use of new technology further leverages our plans to reduce costs and improve customer satisfaction.

b. Stamps on Consignment

Approximately 8 percent of retail revenue is generated from the Stamps on Consignment program. This program is designed to offer consumers easy access to purchase stamps. These alternative locations include supermarkets, drug, and convenience stores as well as ATMs at various bank branches. The number of alternative locations provided by this program was approximately 41,000 in 2002.

8. POSTAGE TECHNOLOGY INITIATIVES

Postage Technology Management (PTM) focused on contributing to the Postal Service Transformation Plan objectives of extending easy access to postage and leveraging commercially developed innovations to serve the Postal Service’s need for cost reduction and revenue growth during 2002. The leveraging of commercially developed innovations reduces or eliminates Postal Service capital investment and provides opportunities for cost savings, cost avoidance, revenue generation, and mail security.

PTM activities are based on preserving a technology platform of security requirements, functional specifications, and rules and regulations to ensure secure postage payment systems. This platform not only supports the \$21 billion in postage revenues purchased by the 2 million customers using traditional meters and PC Postage® products, but also enables new postage payment solutions.

During 2002, PTM received 25 concepts for new IBI meters and PC Postage® software solutions. Significant among these are concepts involving cus-

tomers access to special services. Of those concepts, 14 products were formally submitted for evaluation by the various commercial providers of which 11 have currently been approved for national distribution.

The first PC Postage shipping solution with a “POSTAGE PAID” IBI label entered a field test in June 2002. Package shipping customers asked specifically for a way to pay for postage conveniently without printing the postage amount directly onto the shipping label. The POSTAGE PAID IBI label provides the solution by allowing customers to print a postage-paid shipping label with the postage amount embedded in the bar-code data. Early reports indicate wide customer acceptance.

PTM also tested and approved NetStamps™ as a new feature to a popular PC Postage product in the market. NetStamps give customers Internet postage that can be used just like adhesive postage stamps. Giving customers this option provides an attractive technology-based alternative to support the Postal Service Transformation Plan objective to move simple transactions out of the retail lobby.

Another commercially developed innovation that entered initial testing during 2002 is the PC Postage kiosk solution. This product would allow customers to purchase IBI postage for First-Class Mail, Priority Mail, and Express Mail services on a secure web-enabled system with a credit card.

Enhancements to the centralized databases to track and manage products, customers and revenue associated with postage meter use continued during the year. These enhancements are designed to move decentralized data and data processing to centralized data management to improve audit and control capability, transition as many manual processes to automated processing in order to achieve workhour savings, and improve customer service. Many of the initiatives undertaken to move to electronic transfer of funds not only serve to improve Postal Service data management and savings, but also provide improvements for customers because they eliminate any delay in use of their postage funds that may have been caused by manual processes.

PTM’s enhancement efforts provided the opportunity to avoid and/or take \$25 million in costs out of the system during 2002. Highlights of these efforts include:

- A reduction of 80 percent or 54,000 in manually reset meters from the level at the end of 2001, eliminating in excess of 486,000 manual resets at the Post Office window.
- Over 800,000 meter installations and withdrawals processed through the automated meter

movement file that otherwise would have required entry by a field finance clerk.

- 84,100 secure fund transfers processed allowing meter funds to be transferred from one remote reset meter to another in the customer’s place of business — eliminating the need for a withdraw and installation by a Postal Service employee and the issuance of a refund check.
- 6,700 manual meter migration enhancements were processed allowing meter funds to be transferred from a manually reset meter to a remote reset meter at the customer’s place of business instead of the Post Office.

K. PRICING AND CLASSIFICATION

Pricing and Classification followed up the unprecedented rate case settlement for Omnibus Rate Case Docket 2001-1 with the most successful ever implementation of those rates. In addition, it was instrumental in the introduction of several pricing and service innovations to help the Postal Service reduce handling costs for customers and add value to their service.

1. OMNIBUS RATE CASE R2001-1

A comprehensive plan was developed to support the implementation of the new rates and fees. The plan focused on communications, cross-functional teamwork, and training to ensure that the Postal Service and its customers were ready for the changes to rates, fees, and classifications. The plan included the involvement of postal and customer implementation readiness teams (IRTs) and an implementation advisory board (IAB) comprised of 15 postal members ranging from postmasters in rural communities to a district manager. The IRTs and IAB helped to identify internal and external impacts and provided solutions that would ensure all parties were prepared for the June 30 implementation. Implementation and communication with Postal Service employees and customers were accomplished through the extensive use of internally developed implementation packages, kits, posters, Postal Service Television Network (PSTN) broadcasts, conferences, postal publications, and Internet technology. In addition, the department provided training for and coordinated efforts of the Technical Speakers Bureau. These speakers made presentations at more than 200 internal and external events, including Postal Customer Council meetings and the National Postal Forums.

2. NEGOTIATED SERVICE AGREEMENT

An historic milestone in the evolution of postal pricing occurred with the filing of the first negotiated service agreement (NSA) with Capital One Financial Services. This is discussed more fully in Chapter 1, Section D, 5.

3. REVISED DOMESTIC MAIL MANUAL

In addition to changing the process of developing and implementing new prices, the manner in which those prices, rules and standards are communicated is also changing. The Domestic Mail Manual (DMM), long the final reference authority for explaining mailing regulations, is undergoing dramatic change to make it more user-friendly. Recognizing that customers have varying levels of mailing knowledge, the Postal Service is designing a new series of DMMs for beginners, experts, decision makers, and implementers.

In 2002, DMM 100: A Customer's Guide to Mailing, was introduced. The focus of this guide is the retail customer. The DMM 200, intended for small to medium volume mailers, is currently in production. It will be followed by a DMM 300 for large-volume mailers and a DMM 400 for special topics.

The DMM is being redesigned with the help of Carnegie Mellon University, recognized as a world leader in a process called user-centered design.

4. SUBSCRIPTION BASED PRICING

A significant new development in the way Postal Service prices are set occurred in the fall of 2002 when subscription-based pricing for Confirm went into effect. Confirm allows customers to track letters and flats as they move through the mail processing system. Data generated from PLANET barcodes on mailpieces is made available to individual subscribers so they can find out where their mail is in the delivery process.

Traditionally, the Postal Service has set prices by first determining its costs and then applying a markup. For Confirm, the pricing structure was based on mailer needs and the value of the service. Research was conducted at various price levels to determine price sensitivity, which led to the proposed prices that were submitted to the Postal Rate Commission.

5. PERIODICALS PRICING TEST

Another pricing initiative was a periodicals price incentive test. This test provides an incentive for small publications to combine their mailings on pallets and drop them closer to the point of delivery — in effect, turning small mailings into larger mailings. Mailers benefit from lower prices while the Postal Service reduces

its processing costs. It's expected that this kind of pricing will become more important with the predicted growth of smaller, more specialized publications.

L. MARKETING TECHNOLOGY AND CHANNEL MANAGEMENT

During 2002, Marketing Technology and Channel Management continued its commitment to leverage advances in technology to significantly improve the customer experience for business mailers. The organization targeted the following three areas: dramatically improve acceptance, streamline and improve the overall payment and account management process, and significantly enhance customer access to mailing and postal information.

Although the Postal Service faced a significant financial challenge during 2002, the Postal Service Board of Governors approved the capital investment required to launch the national expansion and continued development of the PostalOne! program. Deployment of this platform is critical to our Transformation Plan because it establishes the principal operating platform, provides an electronic linkage with customers, and creates a single point of access to consolidated postal and mailing information most frequently requested by the mailer. This system will also replace the aging PERMIT system and support new flexible payment and account management options and consolidated reporting recommended by the Mailing Industry Task Force.

Marketing Technology and Channel Management continued to deploy the Mailing Evaluation Readability Lookup Instrument (MERLIN), the transportation management function of PostalOne!, and the electronic Manifest Verification (e-VS) efforts that began during 2001. These capabilities represent a substantial investment by the Postal Service and have been embraced by customers as a preview of things to come.

MERLIN electronically verifies presort mailing makeup, barcode readability, tray label accuracy, meter identification, piece counts, and mailpiece characteristics, enabling the acceptance units to more effectively accept and verify discounted mail. Two hundred machines were deployed during the initial project in the Southeast and Southwest Areas and we are deploying another 1,000 units to the remaining areas of the country. We expect to complete deployment by the end of calendar year 2003.

The transportation management component of PostalOne! made tremendous improvements during the year to more effectively integrate and align customer and Postal Service business processes. They continued

their focus on finding new opportunities to further reduce costs and improve service to business customers. By using this transportation feature, mail acceptance can occur at the customer's plant by using this electronic transportation assignment capability in conjunction with the fully automated Scan-Where-You-Band (SWYB) system or desktop version. Together, they result in substantial savings and greater consistency in delivery by diverting the use of scheduled air transportation of mail into the surface transportation network. The Postal Service has installed 67 systems to date and have approximately 27 systems remaining to be deployed by the end of 2003.

While Marketing Technology and Channel Management is focused on improving services by leveraging technology, ongoing training also is needed to ensure Postal Service employees know how to use these new capabilities. During 2002, Business Mail Acceptance conducted all training at the National Center for Employee Development in Norman, OK, and the William F. Bolger Center for Leadership Development in Potomac, MD, to ensure more disciplined and consistent training is provided to students. In addition, we have new training programs for business customers and acceptance unit employees to strengthen their knowledge of Periodicals mailings and MERLIN.

Moving forward, we will continue to seek opportunities to improve the customer experience, leveraging technology to better align systems and processes to further reduce costs, improve service, and make the acceptance process easier to use.

M. THE INTERNET: TRANSFORMING THE WAY WE CONNECT WITH OUR CUSTOMERS

Every year the Internet continues to expand and develop its mainstay role in American culture and economy. In 2002, the Postal Service's Internet channel clearly and effectively demonstrated this fact by the 127 million visitors who came to the Postal Service website at www.usps.com. Since its inception, one of the Postal Service's primary goals has been to bind the nation together through communication. Historically, the Postal Service has utilized the latest, most advanced available technology to enhance service. This odyssey has taken USPS from the Pony Express to Airmail to the cyberspace domain of the Internet and www.usps.com.

1. THE POSTAL SERVICE'S INTERNET CHANNEL: WWW.USPS.COM

The events of September 11 and the October 2001 bioterrorism attacks on the U.S. Postal System were unprecedented in their magnitude and the suffering they inflicted. One of the Postal Service's most daunting challenges immediately following was verifying and disseminating, in real time, the critical information to employees and customers. The www.usps.com website performed this significant role deftly and consistently throughout the crisis.

Then in April 2002, Postmaster General John E. Potter introduced and released a comprehensive Postal Service Transformation Plan. Concurrent with the Plan's release, the Postmaster General issued an organization-wide directive that "full and effective execution of the plan" be incorporated into all plans made and all actions taken at Headquarters and throughout the field. The Postal Service Transformation Plan factored significantly in the 2002 development and launch of new services and improvements to www.usps.com.

The Plan challenges employees to make enhancement, improvement, and customer satisfaction their primary objectives. The Internet channel responded by launching new services to further reduce costs, grow revenue, and build customer loyalty. The channel migrated high-volume, low-value transactions to www.usps.com. Established examples of this are the ZIP Code Lookup and Track and Confirm functions. In 2002, ZIP Code lookups and Track and Confirm transactions totaled 39 million and 33 million, respectively.

In 2002, 800,000 customers enjoyed the convenience of completing their change of address online at www.usps.com. The ability to "Print Shipping labels with or without postage" was another popular feature. Both are examples of how the Postal Service's website continues to develop and implement innovative ways to meet customer needs:

2. SECURE ELECTRONIC SERVICES: DELIVERING THE REACH AND AUTHORITY OF THE UNITED STATES POSTAL SERVICE TO CUSTOMERS IN THE ELECTRONIC WORLD

The PosteCS®, NetPost.Certified™, and the marketplace-independent Postal Certificate Authority (CA) programs were discontinued due to a slower than anticipated adoption rate. Although interest was very high

with a number of initial champions of these two services, the long start-up time did not allow the Postal Service to recapture its investment quickly enough.

The Postal Service's Electronic Postmark® (EPM) digitally time-stamps and signs electronic files and detects any tampering of the postmarked document or transaction. The EPM program was outsourced to a private sector company, AuthentiDate, where marketing and operating expenses were reduced by over 90 percent.

3. ONLINE PAYMENT SERVICES: EXTENDING TRADITIONAL VALUE IN TODAY'S MARKETPLACE

The Postal Service continues to explore new and better ways to extend and enhance its traditional products by leveraging today's quickly evolving technology. For the past two years, Online Payment Services have been available through www.usps.com. Postal Service customers can not only pay all of their bills online through eBillPay™ they have the ability to send and receive person-to-person payments using Send Money™ and can transfer funds directly between bank accounts. Pay@Delivery™ allows customers to purchase online auction items and have the service hold their payment until the delivery of the item is confirmed through the scanning of a Delivery Confirmation barcode on a Priority Mail package.

4. HYBRID MAIL SERVICES: DELIVERING TRADITIONAL MAIL IN A NONTRADITIONAL WAY.

In September 2000, the Postal Service launched NetPost Mailing Online™, the first of four hybrid mail services. Through the power and ease of the Internet, customers can send their mail from home or office desktop computers anytime. With four hybrid mail services available, customers can send a wide variety of mail pieces, including letters, postcards, folded greeting cards, and Certified Mail items.

NetPost Mailing Online saves customers time, effort, and money. These printing and mailing services allow our customers to send their mailings from their office or home — meaning there are no trips to the Post Office involved — saving valuable time. The customer simply submits the document and mail list, selects from an extensive array of printing options, and pays. NetPost will print, fold, insert, and apply the postage. Mailings ordered by 2 p.m. EST are generally printed and mailed the following business day.

To expedite delivery, orders are securely transmitted and printed at an authorized site nearest the recipient's address, saving time of delivery and numerous operational handling expenses. NetPost Services is all about customer ease of use. There are no minimum volume requirements, no special forms, no annual mailing permit fees, postage meters, or presort software needed. Every address is verified to ensure its accuracy, and delivery point barcodes are added to improve processing efficiency.

NetPost Services provide increased access to current mailing products and services. The bottom line is that these services produce an opportunity for the Postal Service not only to create additional revenue streams but also to extend the use of the Postal Service, because the Internet never closes!

Demonstrating the increasing acceptance of the Internet as a channel for customers to conduct business transactions, the Postal Service's hybrid mail services, and customer, volume, and revenue trends continue to grow. NetPost Services exceeded over 1 million pieces in mail volume in the year's final Accounting Period (AP-13), with continued growth expected in 2003.

5. EXPANDING CONVENIENT ACCESS CHOICES TO POSTAL SERVICE CUSTOMERS

Despite the unprecedented challenges of 2002, it was a year of substantial growth, improved performance and usability, and overall enhancement of the products and services offered by www.usps.com. We are striving to achieve even greater results this upcoming year. In January 2003, the Postal Service will unveil a revamped www.usps.com in an effort to deliver more value to its customers and transform the way the Postal Service does business.

N. TECHNOLOGY

Throughout 2002, the Postal Service enhanced its ability to offer effective and efficient service through the strategic application of technology. Many of the Postal Service's accomplishments this year have ensured a secure and modern information technology infrastructure, providing universal computing connectivity, and improving the automated mail process for the Postal Service, mailers, and consumers. By enhancing its technological capabilities, the Postal Service supported current business needs and anticipated potential business requirements, resulting in a robust and flexible technological foundation for the future.

1. INFORMATION PLATFORM

As outlined in the Transformation Plan, the Postal Service is continuing its work toward the development of an "Information Platform" which will provide high-value, reliable, and accurate information to improve service and productivity for its internal customers. The critical success factors for integrating data and applications are standardization, speed to market, and a reduction in costs. Throughout 2002, the Postal Service focused on the following initiatives in support of the development of an Information Platform:

- The Postal Service completed the operational deployment of Confirm, which provides information to mailers by notifying them when their flats and letters enter the mail stream and provides detailed information as their pieces are scanned by Postal Service equipment. Reports are available to subscribers on the Internet.
- The Postal Service also used the Internet to provide further enhancements to its services. These enhancements include the ability to print mailing labels and download PC Postage from www.usps.com, to track the status of certified and insured mail, and to file change of address information via the internet.
- Postal operations were also improved using information technology. The deployment of the Delivery Operations Information System (DOIS) was completed in September 2002, six months earlier than scheduled. DOIS provides delivery supervisors with the information needed to effectively manage overtime and to reassign delivery routes in the case of absences.
- Managed Service Points (MSP) deployment was completed to all targeted sites. In MSP, carriers scan delivery points at selected locations on their routes to ensure that the Postal Service is providing consistent time of day delivery.
- The Surface Air Support System (SASS) has been enhanced to include scanning in ground handling operations at airports. This provides additional information on the status of the mail and the volume of mail being tendered to contract air carriers.
- The Postal Service developed and tested a Labor Scheduler that will provide processing facilities an automated tool for determining the number of bid positions needed. The Labor Scheduler uses information on volumes, operational productivity, and other operational requirements to determine the number of bid positions consistent with our labor agreements.

2. INFORMATION TECHNOLOGY SECURITY

Because the Postal Service, its suppliers, and its customers rely upon information technology to conduct business for and with the Postal Service, we are dedicated to a cornerstone strategy of enhancing technology security. With over 50 externally-facing systems and over 127 million hits to www.usps.com per year, our security efforts help ensure that our electronic communications merit the public trust earned by the Postal Service. To protect its resources, personnel, and customers, the Postal Service developed a more robust intrusion protection capability, deployed an initial sensor set to key points in the Postal Service infrastructure, and added still another layer of protection.

The Postal Service recognizes that its employees and contractors are the first layer of defense in information technology security. To minimize our internal technological vulnerabilities, we established an internal information security website and reading room to increase awareness of the necessity for security precautions; initiated a new risk-based process for the certification and accreditation of postal applications; identified critical systems that require updated, tested business continuity and contingency plans; and, published compliance policies and operating procedures to minimize security vulnerabilities.

3. THE INFRASTRUCTURE

This year, the Postal Service made tremendous progress with its program to modernize, secure, and simplify the information technology infrastructure, called the Advanced Computing Environment (ACE). Many elements of our current computing environment are outdated and are no longer supported by their manufacturers. The new infrastructure is expected to reduce the costs associated with the required internal support for such systems and increase user functionality due to improved capabilities. The process of delivering ACE will be as advanced as the product itself. For example, the cumbersome installations of enterprise-wide applications on desktops will become a thing of the past, as ACE will offer web-based solutions. This method enables users to access the latest versions of applications through an Internet browser, reducing the costs affiliated with technical personnel administering updates.

In 2002, the Postal Service upgraded 75 percent of the workstations at Postal Service Headquarters; transitioned over 2,000 users to a new e-mail system, Microsoft Outlook, that has increased functionality (integrated calendar, address, and task management); and

completed seventy percent of the help desk consolidation effort. When complete, 130,000 users at 38,000 postal facilities will have upgraded terminals and e-mail systems, and 85 district help desks will be consolidated into one. The Postal Service also made progress with its efforts to reduce the number of software packages and servers it uses, renegotiate contracts, and employ remote management tools, thereby reducing support costs. The ACE initiative is projected to result in savings or cost avoidances of up to \$200 million over a five year period by centralizing and reducing support functions.

4. UNIVERSAL COMPUTING CONNECTIVITY

In 2002, the Postal Service deployed wireless solutions to over 375 Headquarters managers for critical functions such as e-mail communications, calendar management, and contingency planning. These wireless devices, employing Blackberry technology, are expected to eventually reduce the need for pagers, cell phones, and personal digital assistants (PDAs). Now, Postal Service managers have remote access to e-mail and the Internet and to postal contingency planning information at all times and from any location. This wireless system better supports the continuous operations of the Postal Service. The deployment of wireless solutions to Headquarters managers will be completed in early 2003, when deployment to the field will begin.

5. ADDRESS MANAGEMENT

The Postal Service's ability to automate the mail delivery process is dependent upon our ability to maintain current data on each delivery point served by the Postal Service and provide that data to Postal Service facilities and customers. The following initiatives attest to the Postal Service's dedication to rendering the automated mail delivery process more effective and efficient:

a. Change of Address

Over 3 billion pieces of forwarded mail and nearly 44 million change-of-address cards were processed in 2002. To forward mail in a streamlined process to the 17 percent of the nation's population that moves each year, the Postal Service uses the Computerized Forwarding System (CFS). CFS sites are located in 215 postal facilities nationwide and the CFS database provides the data for all address correction activities.

The National Change-of-Address (NCOA) provides business mailers with change-of-address information for customers on their mailing lists, thus ensuring that communications are directed to the current address of

the customer. This process reduces the amount of undeliverable mail and promotes the use of automation-compatible address formats by ensuring that all addresses submitted are standardized with complete and accurate information, including ZIP+4 codes. More than 8.8 billion address corrections were provided to business mailers through the NCOA service during 2002, an increase of 2.5 percent over 2001.

In 2002, the new MoversGuide Online service made the process of moving easier for many. The MoversGuide Online, an Internet-based version of the established by-mail service, was launched in August 2001 and nationally available in November 2001. The online version allows a customer's change-of-address orders to be accepted electronically via the Internet, with valid credit card identity validation. Offered as a convenient alternative, the electronic process does not change or affect any of the other currently acceptable change-of-address methods.

b. Undeliverable-as-Addressed Mail

As a part of its overall mission to continually improve the automation process, the Postal Service focused efforts on reducing the amount of undeliverable-as-addressed mail. The Postal Service makes products and services available to mailers that assist them in attaining — and maintaining — 100 percent deliverable address lists. For example, mailers who utilize the Address Element Correction (AEC) service are able to produce more deliverable mailpieces and gain access to worksharing discounts.

Another offering that aims to reduce the amount of undeliverable-as-addressed mail is the Delivery Point Validation (DPV) product. Made available to the commercial marketplace at the beginning of 2002, this new technology assists mailers in validating the accuracy of address information — right down to the physical delivery-point. The process is designed to work in concert with commercial address matching software. Because the address matching software references the ZIP+4 code, DPV provides the opportunity to determine if the addresses actually exist and are served by the Postal Service. By mapping the results of the match to ZIP+4 and delivery point barcode information, the DPV process can determine if the address is sufficiently complete and correct for delivery. For example, DPV can determine if an address needs apartment or suite numbers and if those numbers are correct. At that point, mailers can make a business decision as to whether mailpieces should be prepared for those addresses. Therefore, DPV will reduce processing and delivery costs for the USPS and postage expenses for mailers.

c. Other Initiatives

The Multi-line Optical Character Readers (MLOCs) are equipped with the current National ZIP+4 Directory in its memory to assign the appropriate POSTNET barcode representing the ZIP+4. With over 1,200 commercial systems that process over 75 million pieces of mail daily, the added ability to determine quickly the origin of a POSTNET barcode significantly improves mailpiece accountability, discount eligibility, and enhances overall system-wide integrity. Multi-lines also spray the Fastforward™ mail identifier. During processing, this technology identifies mail pieces that carry incorrect addresses for addressees who have moved. Approximately 20 percent of the vendor community employs Fastforward technology.

O. OPERATIONS PLANNING

1. STAFFING AND SCHEDULING

The Postal Service's future success as an organization will be influenced significantly by its ability to use workhours efficiently and to maintain stability in staffing relative to workload. To support this goal, the Integrated Resource Management (IRM) program was successfully implemented at 102 sites, covering 553,915 employees by the end of 2002. This success was built on the 19 pilot sites implemented in 2000. IRM entails a comprehensive process which combines two major components: leadership and technology.

Under the leadership component, a prerequisite to deployment of the technology component is the Coaching for Performance Accountability (CFPA) training. Through this training, supervisors learn to sit with each of their employees and explain what is expected of them, not only in terms of attendance, but everyday work performance as well. As part of this process, recognition for both good and poor performance is addressed. So far, at the sites that have implemented the CFPA training, productivity is higher than at non-IRM sites, and processing costs are lower.

Under the technology component of the IRM initiative is the enterprise Resource Management System (eRMS), an automated system used to assist supervisors and managers in plants and Post Offices to record, track, and manage the leave administration process. During 2002, sites implementing resource management have reduced sick leave usage by more than 1.6 million hours and sick leave dollar savings ranging from a minimum of approximately \$32 million (average sick leave hourly rate) to a maximum of nearly \$47 million (includes straight salary with benefits). One of the sig-

nificant accomplishments for 2002 was the major deployment effort to convert the LAN-based resource management application to eRMS, a web-based application, and expand system usage nationwide. With much hard work and determination, all areas successfully completed eRMS conversions for their sites by the end of September 2002, three months ahead of schedule. An outgrowth of the resource management process was the standardization and consistent decision-making process involved with FMLA administration. As a result, administration of the Family and Medical Leave Act (FMLA) was moved from a decentralized base of approximately 20,000 first-line supervisors to approximately 160 FMLA coordinators located in the attendance offices. These FMLA coordinators were provided with an intensive 24-hour training course to enable them to be knowledgeable about the complex FMLA laws and policies and allowing them to make sound business decisions on employees' requests. With the advent of the FMLA coordinators, line supervisors had more time to perform their operational duties and allowed them to improve communications with their employees.

As the resource management process continues in 2003, the vision is to provide an integrated approach to link Time and Attendance Collection System TACS, DOIS, and other components from injury compensation databases for interface with eRMS. This will provide a robust tool to build a solid, effective management foundation to manage daily business operations and reduce costs. Further enhancements are anticipated in 2003 to provide users with even more information in a cost efficient way. As part of our 2003 vision, several attendance offices are being merged into one centralized office, to reduce staffing at the plant and Post Office levels and to maintain the flexibility to adjust staffing as needed.

Coupling an increased emphasis on attendance with a systematic approach to staffing should provide the basis for more effective workhour usage, standardization of business processes, and ultimately, enhanced operational and service efficiency to our Postal Service employees and customers.

2. ADDRESS MANAGEMENT SYSTEM

The success of our automation program depends upon our ability to ensure each mailpiece has the correct barcode. Address Management System (AMS) provides that capability by maintaining current data on each delivery point and by regularly providing that data to Postal Service facilities and customers.

a. Forwarding

The Postal Service uses the Computerized Forwarding System (CFS) to forward mail to the 17 percent of the nation's population that moves each year. Over 3 billion pieces of forwarded mail and nearly 44 million change-of-address cards were processed in 2002. CFS sites are located in 215 postal facilities nationwide. Each CFS site presently consists of a centralized computer, mechanized terminals for processing letters, flat forwarding terminals for flats and magazines, and nonmechanized terminals for processing change-of-address cards and nonmachinable mail. The CFS database provides the data for all address correction activities.

b. 100 Percent Database Quality

Address Management is making progress toward the goal of providing a 100 percent accurate AMS database, by pursuing an aggressive policy of ongoing quality reviews and by developing technological and procedural improvements to ensure better communication between delivery and field AMS sites.

These steps have resulted in improvements to AMS database quality. AMS now provides more timely delivery point address information for use in all automated mail processing, barcoding, and sorting operations. It also is the source of all address information products required by the commercial industry to prepare automation compatible mailings.

In 2000, the Postal Service initiated the National AMS Street Review Program, moving responsibility for AMS data quality measurements from the areas to Headquarters and ensuring that the measurements are applied evenly across the nation. The national team reviewed over 2,130 individual carrier routes.

c. Address Quality Improvement

Improving address quality reduces the amount of undeliverable-as-addressed (UUA) mail and improves the effectiveness of automated mail-processing operations. The Postal Service makes available to mailers, products and services that assist them in attaining and maintaining, 100 percent deliverable address lists. Mailers who use the resources detailed below are able to produce more deliverable mailpieces, and gain access to worksharing discounts.

1. Address Element Correction

The Address Element Correction (AEC) service was designed to correct addresses that could not be matched to the Postal Service's national ZIP+4 file using Coding Accuracy Support System (CASS) certified address-matching software. AEC corrects deficient

addresses and identifies those that do not exist. Already, millions of addresses in mailers' files have been examined and corrected, leading to improved customer satisfaction.

AEC uses a variety of computer logic resolution processes to correct as many addresses as possible. It also produces a diagnostic report about the mailer's list management practices. The current electronic service resolves, on average, 33 percent of the previously unmatched addresses. More than 20 million addresses were processed in 2002 with 6.7 million addresses corrected.

2. Barcode Certification

To ensure the accuracy of barcodes applied by mailers, the Postal Service evaluates the ability of customers' hardware and software to produce properly constructed barcodes that meet Postal Service automation requirements. There are many printers that are certified as producing barcodes that meet the required physical characteristics. The National Customer Support Center (NCSC) in Memphis, TN, maintains a list of vendors for all business mail acceptance units nationwide.

3. Coding Accuracy Support System

The Coding Accuracy Support System improves the accuracy of the carrier route, five-digit ZIP, ZIP+4, and delivery point codes that appear on mailpieces. The program is a quality control measure that ensures that software vendors provide accurate, updated information and software to customers who purchase this information to process their mailing lists. CASS is available to all mailers, service bureaus, and software vendors who want to evaluate their address-matching software and improve the quality of their ZIP+4, carrier route, and five-digit coding accuracy. The NCSC grades this process and the results are returned to mailers to provide useful diagnostics for correcting deficiencies. CASS enables the Postal Service to evaluate the accuracy of address-matching software programs in the following three areas: (a) ZIP+4 delivery point coding, (b) carrier route coding, and (c) five-digit coding. CASS allows vendors/mailers the opportunity to test their address-matching software packages and, after achieving a minimum percentage of accuracy, be certified by the Postal Service.

4. Multiline Accuracy Support System

The Multiline Accuracy Support System (MASS) is an extension of the CASS. While CASS focuses on the processing of addresses stored electronically in computer data files, MASS tests the quality of address matching occurring on multi-line optical character

reader (MLOCR) equipment and direct-view encoding stations. These systems have to lift an address image directly from a mailpiece to accomplish processing. MASS allows vendors/mailers the opportunity to test their machines and, after achieving a minimum percentage of accuracy, be certified by the Postal Service.

5. Customer Notification Letter

In April 1996, the Postal Service implemented a process to circumvent the fraudulent submission of change-of-address Orders. The Customer Notification (Move Validation) Letter is a notification to postal customers who have submitted change-of-address (COA) orders (PS Form 3575, Change of Address Order). The notification is mailed to Postal Service customers at their old address and includes details of the COA order, providing customers an opportunity to verify the COA information on file with the Postal Service. If a potentially fraudulent situation exists, the customer is instructed to contact the local Post Office for assistance. The telephone number of the local Post Office is provided. The notifications also include a question and answer section advising customers what to do if they are not receiving mail at their new address. There is also information on how customers may notify others of their new address, and a reminder to register or reregister to vote.

These notifications are generated for COAs entered into the Computerized Forwarding System database on a daily basis. They are mailed within 24 hours of receipt by the National Customer Support Center in Memphis, TN. More than 44 million Customer Notification Letters were mailed in 2002.

6. Locatable Address Conversion System

The Locatable Address Conversion System (LACS) enables business mailers to electronically update their rural-style addresses with new, locatable city-style addresses in areas that are experiencing 911 emergency response address conversions. There are currently 5 million converted addresses in the LACS file. Improved address quality increases mailer access to worksharing discounts and improves deliverability. The Postal Service licensed 13 firms to assist mailers in updating their address records or to perform the matching service for business mailers.

7. Presort Accuracy Validation Evaluation

The Presort Accuracy Validation Evaluation (PAVE) program is a process designed in cooperation with the mailing industry to evaluate presort software and determine its accuracy in sorting address files according to DMM standards. PAVE is available only to companies

that develop presort software or manufacture presorting equipment for resale or internal use. Participation in the program is purely voluntary. Although this program evaluates and validates presort products manufactured by the developers, PAVE does not guarantee acceptance of mail prepared using PAVE-certified hardware and/or software. However, it does provide national approval of computer-generated facsimiles of Postal Service postage statements, standardized documentation, and other presort documentation.

8. Rapid Information Bulletin Board System

Rapid Information Bulletin Board System (RIBBS) was introduced to provide members of the mailing industry with rapid access to postal information. The information in RIBBS includes Customer Support Rulings, Federal Register notices, weather and natural disaster condition reports, DMM labeling lists, certified vendor information, office locator services, reports and data for ADVANCE participants, and minutes of the Mailers Technical Advisory Committee meetings.

9. Electronic Address Sequencing

Centralized electronic address sequencing service eliminates field workhours in the handling of manual address sequence cards and improves the consistency of the service provided. With average processing times of less than 5 days, the electronic service assists walk sequence mailers in updating their address lists in a much more efficient and time-saving fashion. In 2002, over 64 million addresses were processed for 148 customers. Validating that number of addresses via the manual card process would have cost over 59,000 workhours during the year.

d. The Welcome Kit

The Welcome Kit is a value-added program for customers who have recently moved. It is designed to reduce Postal Service costs and improve service. The Welcome Kit contains the following: the customer's address change Confirmation Notification Letter; local phone numbers and addresses for the customer's new area; a Settling-In Guide, with helpful information and advice on getting settled; savings on products and services customers typically need after moving; and information on how to notify the Bureau of Motor Vehicles, the Internal Revenue Service, and voter registration offices of the new address.

e. Move Update Implementation

The Move Update requirement of Classification Reform, which became effective July 1, 1997, was established to reduce the estimated \$1.9 billion annual expense and negative service standard impacts that

undeliverable-as-addressed (UUA) mail creates. The requirement specifies that addresses used to obtain all First-Class Mail presorted and automation discount rates must be updated for move activity within 180 days (six months) prior to the date of mailing by a Postal Service-approved method. Address Management has direct responsibility for all approved methods with the exception of the manual address correction process, which is mailpiece endorsement based. In addition to National-Change-of-Address Service, the Address Management processes include the following:

f. Address Change Service

The Address Change Service (ACS) offers mailers automated address correction service following the issuance of their mailings. Address correction notifications are generated from change-of-address orders (PS Form 3575) submitted to the Postal Service by customers who move. This change-of-address data is maintained in the CFS database. In order to participate in ACS, mailers are required to modify the address label or address block of each mailpiece for which an electronic ACS notification is requested. They are also required to use an ACS compatible ancillary service endorsement. ACS electronic notifications are provided at a fee of 20 cents per notification. However, participation in ACS does not eliminate the provision of manual address correction notifications (hardcopies), which are provided at the manual address correction fee of 70 cents each. By rapidly updating their address lists, mailers improve the deliverability of their mail. ACS processed 203 million corrections in 2002.

g. Electronic Publication Watch System

The Electronic Publication Watch (ePUBWATCH) system is a web-based periodicals complaint tracking and resolution system which allows a registered publisher to enter a subscriber's Postal Service-related complaint, request an electronic publication watch, or request the assistance of a Periodical Service Improvement team member through the completion of a Systemic Complaint Resolution form. ePUBWATCH was designed to replace the existing paper-based publication watch system in those delivery offices which have a delivery unit computer.

Development and testing of the Publisher's website, the Delivery Unit's Data Entry website, and the ePubwatch Reports website have been completed. All necessary hardware has been purchased and installed to support this web-based system. National deployment began in September 9, 2002.

h. The Collection Box Management System

The Collection Box Management System (CBMS) provides a monitoring tool for delivery unit management to ensure adherence to our collection box schedules and policies. The system consists of a data collection device that scans a barcode located inside a collection box to collect time, location and date information. The information collected by the scanner is then placed in a data transfer device at the delivery unit for downloading into the delivery unit computer. The data is then loaded into the CBMS software program, which allows management to quickly ascertain the status of each collection. A small percentage of delivery units still utilize the wand/button technology to manage collections. During 2003, the plan is to move CBMS from a DOS-based platform to a web-based application.

i. ADVANCE Notification and Tracking System

The ADVANCE Notification and Tracking System, commonly referred to as ADVANCE, is designed as a manual delivery confirmation system to meet the time-sensitive mailing needs of Standard and Periodicals mailers. ADVANCE tracks the delivery performance of qualified Standard Mail and Periodicals mailings in over 7,500 delivery units and in over 11,000 five-digit ZIP Codes. In 2002, over 5.3 billion mail pieces were tracked using ADVANCE, which represents a 23 percent increase over the same period last year.

j. Confirm

The Postal Service completed operational deployment of the new Confirm® service in 2002. This service notifies customers when their mailings enter the mailstream, and provides detailed information to mailers concerning the status of their letters and flats as they are scanned by postal equipment. This information will be available to subscribers on the Internet.

P. FINANCIAL MANAGEMENT

The Postal Service has undertaken financial management initiatives that enhance our ability to control expenses, reduce administrative and program costs, and create greater transparency in our reporting to our stakeholders and the public. Most of these initiatives are long-term efforts and require restructuring and re-engineering of long-established practices to enable the transition to more efficient and informative financial management systems. The key initiatives now underway are reported here.

1. ACTIVITY-BASED-COSTING

Activity-based costing (ABC) is a methodology designed to assist managers in reducing expenses by assigning both direct and overhead costs to an organizational unit's activities and the outputs it produces. The Postal Service currently is piloting an ABC model that contains activity and product costs for 311 processing facilities and uses information from existing Postal Service financial and operational systems. We anticipate adding the approximately 90 customer service processing facilities to the existing model by the end of 2003. During this period, we will also be preparing for a new bulk mail center model. Metrics are generated each accounting period using commercial off-the-shelf software.

In 2002, the team built the ABC model, procured the software reporting tool, and developed a training package.

2. MONTHLY REPORTING

With the start of 2004, the Postal Service will begin reporting interim financial results on a calendar month basis.

Currently, the Postal Service reports interim financial results on a four-week accounting-period basis. The accounting period consists of two bi-weekly payroll cycles totaling four weeks. Thirteen accounting periods comprise the entire internal postal fiscal year (PFY), which consists of exactly 52 weeks or 364 days.

The Postal Service has always made its annual financial reports on a government fiscal year (GFY) basis. The GFY runs from October 1 each year through the following September 30. Internally, the Postal Service has used both the postal and government fiscal years but all its interim reporting has been based on the PFY. Because the PFY is only 364 days long, the PFY and GFY have become increasingly misaligned.

The conversion to monthly reporting eliminates confusion about the postal calendar year and will allow comparisons of Postal Service financial results with results of our competitors and customers, and government and other econometric data bases which are most frequently in calendar quarter and monthly formats. This should enhance the transparency of Postal Service financial reporting, consistent with recent Government Accounting Office recommendations.

During 2002, the Postal Service completed a review of all existing information systems and targeted approximately 190 systems that require conversion to monthly reporting. Interim procedures were implemented to enable 2003 data to be reported in an accounting

period format during the fiscal year, but to be recast at year's end into a monthly format. When monthly reporting starts in 2004, a full one-year financial history will be available.

3. STANDARD ACCOUNTING FOR RETAIL

Standard Accounting for Retail (SAFR) is a new Postal Service accounting system that uses commercial-off-the-shelf software, and best practices to collect and report revenue activity on a daily basis. Postal Service policy and processes have been reengineered and automated to match best practice controls in the package. SAFR testing began in February 2002 at district accounting offices in Northern Illinois and Northland Minnesota.

SAFR increases management information and provides daily revenue information by postal retail location. Daily revenue information will be collected from small offices on a staged roll-in starting late in calendar year 2002 via the Postal Service's Delivery Confirmation network. By September 2003, when SAFR is fully deployed, all units will be reporting revenue on a daily basis. Data will be available in an Accounting Data Mart (ADM) within the Postal Enterprise Data Warehouse.

4. SHARED SERVICES/ACCOUNTING

The Shared Services/Accounting (SS/A) initiative is a reengineering of accounting processes of the Postal Service. Using the SAFR system as the cornerstone, field accounting processes have been redesigned and streamlined for efficiency. Work associated with the reengineered processes will be performed in our three accounting service centers, rather than in 85 districts. Documents will be imaged, eliminating paper, and accounting services provided will be measured. A national accounting help desk will respond to all accounting related questions. Pilot test sites will be brought into SS/A in November 2002, resulting in the closure of the first four district accounting offices. Affected employees will be outplaced according to the APWU National Agreement. Implementation by area is scheduled for completion in September 2003.

5. EXCELLENCE IN ACCOUNTING THROUGH THE GENERAL LEDGER

The Excellence in Accounting through the General Ledger (eaGLE) project is a joint effort between the Finance and Information Technology groups to replace the current General Ledger (GL). The GL system is the core of the Postal Service's financial reporting systems

with all financial activity and results processed through the system. The main legacy systems are 15–25 years old and are programmed in languages no longer supported by software providers. The current General Ledger does not support projected cash flow amounts nor does it support our move to calendar month financial and performance reporting from the current accounting period (4 week) reporting. Our use of COTS software enables improved support capabilities, flexibility to adapt to changing business processes, and supports all period reporting and finance/unit level reporting to the lowest levels of the organization.

The eaGLe project, approved by the Board of Governors in 2002, is currently on schedule to be fully implemented starting in 2004.

6. TIME AND ATTENDANCE CONTROL SYSTEM

The Time and Attendance Control System (TACS) project replaces five time and attendance systems, including the Postal Source Data System (PSDS), in existence since the late 1960s. The change will reduce system support and administrative costs and provide daily information. All PSDS systems were replaced by TACS by the end of 2001. During 2002, we worked to replace the other time and attendance systems. By the end of 2002, approximately 699,000 employees were being paid through time entered in TACS. The Rural Time and Attendance system will be converted to TACS in 2003. The TACS Adjust Pay program, which enables local corrections, was developed this year and will be rolled-out to coincide with Shared Services/Accounting.

7. INTERNAL CONTROLS

Our three key initiatives to automate and reengineer accounting processes —TACS, SAFR, and SS/A — free up resources and enable us to restructure Finance management to place increased focus on internal control. The new internal control function will provide consistent resources to district management with direct line of sight through the organization and will enhance internal controls and accountability. The current accounting manager/supervisor, postal systems coordinator, and revenue assurance analyst positions will be reassigned to the new function.

The Postal Service has sought to avoid redundancy in our 2002 Annual Report and this 2002 Comprehensive Statement on Postal Operations. In this chapter, we present Financial Highlights in a condensed format. We focus discussion and analysis on: Postal Service financial results for 2002; aspects of our financial management on which Congress has requested that we report; business programs on which we are required to report, such as the Breast Cancer Research semipostal stamp program; and topics of particular interest to Congress, such as appropriations. We provide more detailed analysis of the financial results of our operations for 2002 in the Postal Service 2002 Annual Report.

and was the major contributor to the revenue increase. Tables 3-1 and 3-2 show the percentages for revenue and volume by class of mail.

2. EXPENSES

Compensation and benefits dominate Postal Service expenses, comprising more than 76 percent of our total expenses. Interest on the deferred Civil Service Retirement System (CSRS) retirement liability accounts for an additional two percent of expenses. These costs are detailed in Table 3-3. In 2002, Postal management continued to control personnel costs aggressively, cutting work hours by almost 78 million and reducing

A. FINANCIAL SUMMARY

1. REVENUE

TABLE 3-1 REVENUE BY CLASS OF MAIL*
(in millions of units indicated)

	Revenue*				Volume(pcs)*			
	2002		2001		2002		2001	
First Class	\$36,483.2	54.89%	\$35,876.0	54.49%	102,378.6	50.48%	103,655.6	49.96%
Standard	15,818.8	23.80%	15,704.9	23.86%	87,230.6	43.01%	89,938.4	43.35%
Priority	4,722.5	7.11%	4,916.4	7.47%	998.2	0.49%	1,117.8	0.54%
Spec Svcs	2,654.5	3.99%	2,341.4	3.56%	0.0	0.00%	0.0	0.00%
Periodicals	2,164.9	3.26%	2,205.2	3.35%	9,689.8	4.78%	10,077.4	4.86%
International	1,579.8	2.38%	1,731.7	2.63%	903.8	0.45%	1,082.5	0.52%
Express	910.5	1.37%	995.7	1.51%	61.2	0.03%	69.4	0.03%
Other	2,129.1	3.20%	2,062.4	3.13%	1,559.6	0.77%	1,521.5	0.73%
Totals	\$66,463.3	100.00%	\$65,833.7	100.00%	202,821.8	100.00%	207,462.6	100.00%

* Note: See Pages 52 and 53 of our 2002 Annual Report for Revenue, Volume and Weight information by Class of Mail.

In 2002, operating revenue grew 1.0 percent to \$66.5 billion, on a volume decline of 2.2 percent. This marked the second consecutive year of mail volume decline and the greatest rate of volume decline since 1946. In 1999, revenue grew 4.4 percent with the implementation of a general rate increase. Revenue in 2000 grew 2.9 percent, nearly \$800 million below what had been estimated. First-Class Mail volume grew less than expected, mailers shifted their mail to more automated classes to reap associated cost savings, and diversion of messaging from hard copy mail to electronic media continued. These trends strengthened in 2001 and were compounded by the effects of the steadily softening economy. In 2002, continuing economic weakness, the disruptive effects of the September 11 attacks and bioterrorism and the R2001-1 rate increase all contributed to still greater volume decline. The early implementation of R2001-1 rates boosted revenue by almost \$1 billion, however,

career complement by 23,000. These actions held the increase in compensation and benefits expenses to 0.4 percent, or \$206 million, down from the growth of \$1.8 billion (3.7 percent) in the previous year. Still, higher costs per work hour, increased workers' compensation costs, and rising health benefit premiums continued to exert upward pressure on expenses. In particular, workers' compensation costs increased by over \$500 million in 2002, following a \$60 million increase in this category in 2001. We anticipate that some of the trends that caused this increase will continue, most notably that of medical cost inflation. Our primary strategies for controlling workers' compensation costs is to reduce accidents and identifying productive work assignments for those employees who cannot return to their normal duties. Historical fluctuations in this expense can be seen in Table 3-4. Health benefits for employees and retirees are another significant expense driver, increasing by almost \$500 million in 2002.

CHAPTER 3 FINANCIAL HIGHLIGHTS

TABLE 3.3 ANALYSIS OF EXPENSES

	2002 (\$ million)	2001 (\$ million)	Variance	%Change
Personnel				
Compensation	\$36,876	\$37,978	\$(1,102)	-2.9%
Benefits	<u>14,681</u>	<u>13,373</u>	<u>1,308</u>	9.8%
SUBTOTAL	51,557	51,351	206	0.4%
Non-personnel				
Transportation	5,132	5,056	76	1.5%
Supplies and Services	2,614	3,207	(593)	-18.5%
Building Occupancy	1,653	1,636	17	1.0%
Depreciation / Write-Offs	2,296	2,223	73	3.3%
Interest Expense				
Deferred Retirement	1,601	1,603	(2)	-0.1%
Borrowing	340	306	34	11.1%
Other	<u>2,171</u>	<u>2,167</u>	<u>4</u>	0.2%
SUBTOTAL	15,807	16,198	(391)	-2.4%
TOTAL	<u>\$67,364</u>	<u>\$67,549</u>	<u>\$ (185)</u>	<u>-0.3%</u>

TABLE 3.4 WORKERS' COMPENSATION EXPENSE AND CASH PAYMENTS*

(dollars in millions)

Fiscal Year	Estimated Annual Increase/Decrease in Liability for Active Claims	Administrative Charge (DOL)	Total Annual Expenses	Payments to DOL for Postal Service Active Claims and Admin. Charges*
1993	928	17	945	487
1994	311	16	327	501
1995	860	17	877	520
1996	718	19	737	531
1997	187	19	206	538
1998	739	21	760	567**
1999	583	20	603	585
2000	891	20	911	671
2001	937	33	970	694***
2002	1,474	37	1,511	818****

* Payments in this table are on cash basis by fiscal year in which the payments were made. Listed payments include payments for active Postal Service claims and for associated DOL administrative charges.

Payments exclude all payments for Post Office Department (POD) claimants.

** Previously-reported number changed to exclude POD portion of payment from USPS total payments.

*** Excludes contested and unpaid administrative expense of \$37 million.

**** Includes \$32 million paid for 2001 administrative expenses and \$27 million paid for 2002 administrative expenses.

TABLE 3-5 INCOME AND EXPENSE STATEMENT

(dollars in millions)

	FY 2002	FY 2001	Difference	Change %
Income:				
Mail revenue	\$63,761	\$63,426	\$335	0.5%
Special services	2,654	2,341	313	13.4
Revenue forgone appropriation	48	67	(19)	-28.4
Operating revenue	<u>66,463</u>	<u>65,834</u>	<u>629</u>	1.0
Expense				
Compensation and benefits	51,557	51,351	206	0.4
Other costs	13,677	14,289	(612)	-4.3
Operating expense	<u>65,234</u>	<u>65,640</u>	<u>(406)</u>	-0.6
Income from operations	1,229	194	1,035	533.5
Interest income	46	35	11	31.4
Interest expense on deferred retirement liabilities	(1,601)	(1,603)	2	-0.1
Interest expense on borrowings	(340)	(306)	(34)	11.1
Emergency Preparedness Appropriations	179	-	179	NM
Emergency Preparedness Expenses	(189)	-	(184)	NM
Net loss	\$(676)	\$(1,680)	\$1,004	-59.8%

3. NET LOSS

We posted a net loss of \$676 million in 2002, which was well below our budgeted loss of \$1.35 billion, despite the largest mail volume decline in our history. This volume decline was brought on chiefly by the economic recession that began in 2001 and continued into 2002. In addition to the recession, disruptions resulting from the September 11 and anthrax attacks and continued diversion of letter mail to electronic communications contributed to lower-than-expected revenues. The revenue decrease was partially offset by the early implementation of higher postage rates in June 2002, which, although increasing 2002 revenues by almost \$1 billion, was not nearly enough to increase revenues to previously expected levels.

In response to this mail volume and revenue shortfall, we aggressively managed expenses and increased productivity. Driven by the goals set forth in the Postal Service Transformation Plan, we reduced costs, net of the impact of reduced volume, by \$1,452 million in 2002. These cost reductions allowed us to hold total expenses to \$67.4 billion, almost \$200 million less than 2001 expenses. This is the first time since the establishment of the Postal Service in 1970 that expenses have decreased from the prior year.

4. FINANCING

The amount that we borrow over time is largely determined by the difference between our cash flow from operations and our capital cash outlays. From 1997 through 2001, our capital cash outlays exceeded cash flow from operations by \$5.2 billion, so we covered the difference with borrowed funds. Our debt outstanding with the Department of the Treasury's Federal Financing Bank increased by \$5.4 billion during that period. This year, however, we were able to reverse the trend of increasing debt each year. Debt outstanding at the end of the year was \$11.1 billion, a decrease of \$200 million compared to 2001.

Our debt balance at the end of the year represents our highest level of debt for the year because, while we accrue our expenses for workers' compensation and deferred retirement benefits throughout the year, we make the actual payments in late September. This year we paid \$4.7 billion, including \$818 million for workers' compensation and \$3.9 billion for CSRS deferred retirement costs and cost-of-living adjustments (COLAs) for retirees. Our cash flows during the year are sufficiently strong to reduce debt from prior year-end levels. We have debt financing flexibility and can manage the fluctuations in our debt during the year by actively

CHAPTER 3 FINANCIAL HIGHLIGHTS

managing our credit lines. However, just as our debt balance at year-end has increased in recent years, so have our average debt levels.

For 2002, our average outstanding debt during the year was less than the prior year-end balance but increased 20.3 percent, or \$1.3 billion, to \$7.7 billion. The interest expense on our debt totaled \$340 million in 2002, compared to \$306 million in 2001. Managing cash and debt on a daily basis is one means we use to minimize our annual interest expense. Our interest expense is determined by the interaction of a number of variables including day-to-day cash flows, the behavior of interest rates, and our debt management activities.

We prefer to maintain a mix of fixed- and floating-rate debt because we believe that, over the long-term, variable or floating-rate debt may provide more cost-effective financing than 100 percent fixed-rate debt. We strive for a favorable balance in the use of these borrowing choices and will borrow fixed-rate debt when market opportunities arise, or when we believe doing so reduces risk. Such was the case this year when long-term interest rates declined to historically low levels, not seen in forty years. We shifted the balance of our debt portfolio towards more fixed-rate long-term debt, reducing our exposure to any increase in interest rates.

At year-end, our long-term debt was \$7.3 billion, with a weighted average interest rate of 5.01 percent, compared with debt of \$5.75 billion and a weighted average rate of 5.17 percent at the end of 2001. Our 2002 borrowing transactions ranged from a high of 5.522 percent for a twenty-nine year maturity to a low of 3.449 percent for a five-year maturity. As we enter 2003, our debt portfolio puts us in good position to manage interest expense and risk for next year and beyond.

In planning for 2002, we prepared a financing plan with a \$1.6 billion net increase in our debt. That estimate, however, pre-dated the events of September 11 and ensuing changes in the economy. Both postal management and the Governors moved decisively to counteract the negative effects of these factors on our cash flow and liquidity. To increase cash flow on the revenue side, we implemented new postage rates on June 30, three months ahead of schedule. An unprecedented settlement between the Postal Service and the mailing industry enabled the Postal Rate Commission to expedite this rate case. On the disbursement side, we reduced our disbursements by reducing our expenses. By increasing revenue and reducing expenses, we turned a projected loss of \$1.35 billion into a net loss of \$676 million. We also continued a modified freeze on capital projects and reduced cash outlays for capital by

\$500 million. In addition, we received \$762 million in emergency appropriations, most of which we had not spent by the end of the year but expect to spend in 2003.

We are currently projecting net income of \$600 million and modest capital expenditures of \$2.5 billion in 2003. If we achieve these targets, we should generate excess net cash flow that can be applied to debt reduction. Debt reduction beyond 2003 will depend on our ability to operate at close to a break-even net income combined with capital expenditures at levels that approximate our depreciation expense. Regarding the need for external financing, we continue to benefit from a policy of receiving payment in advance of service. Any change to this policy would adversely affect our level of debt outstanding. Payment of retirement expenses has not been problematic since these expenses are provided for on an ongoing basis in the cost structure of postage rates.

TABLE 3.6 FINANCING HISTORY

	Year-End Debt (\$ billions)	Average Debt (\$ billions)	Interest Expense (\$ millions)
1998	6.4	3.2	167
1999	6.9	3.9	158
2000	9.3	4.7	220
2001	11.3	6.4	306
2002	11.1	7.7	340

B. PRODUCTIVITY

1. TOTAL FACTOR PRODUCTIVITY: THE PRODUCTIVITY MEASURE

The Postal Service measure of productivity, Total Factor Productivity (TFP), includes all factors of production. TFP measures the growth in the ratio of the outputs and the inputs, or resources, expended in production. By tracking outputs and resource usage, TFP provides a historical measure of efficiency.

The Postal Service's main outputs are mail volumes and servicing an expanding delivery network. To account for variations in resources used to process different types of mail, TFP weights each mail type according to its workload content. Weighting is determined by factors such as size, weight of the mail type, mailer preparation including barcoding and presorting and, mode of transportation used, such as air or highway. In addition to labor, TFP also measures capital and materials inputs such as mechanized and automated equipment, facilities, transportation, and other non-personnel costs. The Output per workhour (labor) component of TFP uses only labor input as a measure of resource use.

Multiple factors may cause TFP growth to vary in the short term. Expenditures to enhance service and improve customer satisfaction may cause short-term declines in TFP growth. TFP can fluctuate from one year

to another because of time lags between making major investments and realizing the associated savings. Consequently, when assessing short-term productivity performance, the factors affecting TFP growth should be taken into consideration. Because TFP can be volatile over the short term, analyses and assessments are best made over fairly long periods of time.

2. TFP: BENCHMARK MEASURES

Traditionally, Postal Service TFP has been benchmarked against Multifactor Productivity (MFP), an index of private non-farm business productivity reported by the Bureau of Labor Statistics (BLS). In recent years, MFP has become less useful as a benchmark measure for comparison of Postal productivity because, as the U.S. economy has become more heavily weighted with high technology goods and services, MFP results have been more heavily influenced by that business sector. Productivity growth in the high-tech sector far outstrips that of the industrial and service sectors that are more akin to the Postal Service.

Table 3.7 shows annual and cumulative TFP and Output per Workhour compared to MFP for 1990–2002. Over the long run, a successful organization will average positive growth in productivity, as has the Postal Service, but year-to-year fluctuations in TFP and Output per Workhour are common. In 1990 and 1993, TFP and Output per Workhour showed exceptional growth. Slow growth or declines followed in 1994

TABLE 3.7 PRODUCTIVITY SINCE 1990

	Total Factor Productivity		Output per Workhour ¹		Multi Factor Productivity ²	
	Annual ³	Cumulative From 1972	Annual	Cumulative From 1972	Annual ³	Cumulative From 1972
1990	2.9	8.6	3.4	13.9	(0.0)	11.3
1991	(1.8)	6.8	(0.1)	13.7	(1.0)	10.2
1992	0.4	7.2	1.0	14.8	2.0	12.2
1993	3.8	11.0	4.6	19.3	0.5	12.7
1994	(0.2)	10.9	0.8	20.2	1.0	13.7
1995	(1.9)	8.9	(1.3)	18.9	0.4	14.1
1996	(1.3)	7.6	(0.1)	18.8	1.4	15.5
1997	1.3	8.9	1.7	20.5	1.0	16.5
1998	(1.0)	7.9	1.2	21.7	1.2	17.7
1999	(0.1)	7.7	0.9	22.6	0.7	18.4
2000	2.2	9.9	2.0	24.6	1.7	20.1
2001	1.7	11.6	1.7	26.3	(0.1)	20.0
2002	1.1	12.7	2.2	28.5	2.7	22.8

¹ Output per workhour measures the change in the relationship between workload (mail volume and deliveries) and the labor resources used to do the work. Our main output is delivering mail and services to an expanding delivery network.

² 2001 and 2002 MFP Data are estimates of DRI-WEFA. BLS Data for these years has not yet been released.

³ Historical data is subject to revision as certain data used in calculating productivity are periodically revised. Price indexes released by the Bureau of Labor Statistics and the Bureau of Economic Analysis that are used to calculate resource usage are subject to regular historical revisions by these agencies. When historical revisions are released, they are incorporated into the TFP calculation, can result in historical TFP revisions. TFP for the reporting year is also subject to revision when final Postal Service cost data for the reporting year is available. Generally, this revision occurs in April of the following year.

through 1996 and positive growth was displayed again in 1997. In 1998 and 1999, TFP declined while Output per Workhour increased. Since 2000, the Postal Service has achieved strong growth in both TFP and Output per Workhour.

3. TFP: 2002 AND THE FUTURE PLAN

The Postal Service's 2002 TFP growth of 1.1 percent marks three consecutive years of positive growth. Output per Workhour growth was 2.2 percent. This TFP result is equivalent to \$700 million. Cumulative from 2000, TFP growth measures 5.0 percent, equivalent to \$3.3 billion in expense reductions. Output per Workhour over this same period grew 5.9 percent.

When compared to years with strong positive TFP growth prior to 2000, the achievement of 2002 is significant. In previous years, strong TFP growth was fueled largely by workload (mail volume and delivery addresses) growth. During the 1990s, TFP grew 0.2 percent annually, on average, while workload grew 1.9 percent annually, on average. In 2002, however, strong productivity growth was fueled by a substantial restraint on resource usage growth. TFP growth of 1.1 percent was achieved in spite of a 1.9 percent decline in workload.¹ The Postal Service effectively managed its use of resources to achieve a 2.9 percent reduction in total resource usage.² Labor and Materials usage declined by 4.0 percent and 0.9 percent, respectively. This achievement was in addition to the significant 2001 reductions in labor usage of 2.3 percent and materials usage of 5.6 percent.

The Postal Service plans to continue to improve TFP over time. The objective is balanced against the need for service improvements to enhance customer satisfaction and remain competitive in the marketplace.

4. TFP: ADDITIONAL CONSIDERATIONS

Worksharing discounts to mailers impact Postal Service productivity performance. Worksharing incentives have shifted a greater proportion of the workload associated with automation-compatible mail to business mailers. Worksharing discounts provide cost savings for the Postal Service and enhance the productivity of the economy as a whole. Worksharing, however, transfers the Postal Service's prime opportunities for productivity improvement to our partners, the mailers. In contrast, the BLS measure, multi-factor productivity, does not factor out self-service or worksharing on the

part of the customer. Rather, MFP captures the whole of the economy, including productivity that has been transferred between segments.

Cumulative TFP growth for the Postal Service from 1972 through 2002 was 12.7 percent, and the average annual rate was 0.4 percent. MFP growth during this period is estimated to be 22.8 percent, or an average of 0.7 percent annually.

C. FEDERAL GOVERNMENT APPROPRIATIONS

By law, the Postal Service normally can receive three types of appropriations from the federal government. These include appropriations for public service, transitional costs and revenue forgone. Currently, appropriations are made for revenue foregone and they accounted for less than 0.1 percent of total revenue in 2002. During 1971, the year preceding the creation of the Postal Service through the Postal Reorganization Act, these appropriations totaled almost one quarter of our total revenue.

The Postal Service currently is authorized to request up to \$460 million for public service costs. This is the amount authorized by statute in 1970 and is not intended to represent the present cost of providing universal service. The Postal Service has neither requested nor received any public service reimbursement since 1982. This is the equivalent of returning \$9.2 billion to the U.S. government and taxpayers.

The transitional cost category of reimbursement provides a means to fund costs related to the former Post Office Department (POD) and shelters current ratepayers from such costs. Workers' compensation claims arising prior to July 1, 1971, were the last known POD cost. In the Balanced Budget Reform Act of 1997, Congress transferred responsibility for these costs to the Postal Service. Therefore, we have not received transitional cost appropriations since 1997.

In 2002, the Postal Service recognized a revenue forgone reimbursement of \$48 million to fund free mail for the blind and for overseas voting. That reimbursement was paid in October 2002, shortly after the close of the year.

¹ This is the second largest decline in Postal Service history. In 1976, workload declined 2.6 percent and TFP declined by 0.5 percent.

² This is the largest decline in resource usage in the history of the Postal Service.

D. EMERGENCY PREPAREDNESS FUNDING

In October 2001, numerous incidents of biological terrorism targeted U.S. senators and members of the national media. Other untargeted innocent persons were also affected by the attacks. Some individuals consequently died while others were made gravely or seriously ill. Because infectious biological agents were sent by mail in these attacks, the Postal Service was directly and severely affected. Two Postal Service employees died of anthrax infection. Mail services in some areas were curtailed; two mail processing facilities had to be closed for the long term because of anthrax contamination; and mail volume declined.

Our viability and our value to the American people depend upon an open and accessible mail system. Following the anthrax attacks, it was critical that we put in place new and enhanced technology applications and process changes that can enhance the safety of the mail system and reduce risks to both employees and customers.

Shortly after the initial bioterrorist attacks, the President of the United States authorized an initial funding of \$175 million for 2002 to assist in paying for these safety measures. In November 2001, Congress appropriated an additional \$500 million to “protect postal employees and postal customers from exposure to bio-hazardous material, to sanitize and screen the mail and to replace or repair postal facilities destroyed or damaged in New York City as a result of the September 11, 2001, terrorist attacks.” Our use of the funds provided by this appropriation was contingent on the submission of an emergency preparedness plan to combat the threat of biohazards in the mail. We submitted the required Emergency Preparedness Plan in March 2002.

In August 2002, Congress appropriated an additional \$87 million for emergency expenses, as detailed in our Emergency Preparedness Plan, to be incurred by the Postal Service, to further protect postal employees and customers from exposure to biohazardous material and to sanitize and screen the mail.

TABLE 3.8 HISTORICAL AND PRESENT-YEAR IMPACT OF CONGRESSIONAL APPROPRIATIONS ON MAIL REVENUE 1971, 1976, 1986, 2002

(dollars in millions)

Year	Total Mail Revenue	Mail Revenue Without Appropriations	Appropriation Category	Income from Appropriation	Appropriation as a Percent of Total Mail Revenue
1971*	\$ 8,752	\$ 6,665	Deficiency in rates and fees; and Public Service	\$ 2,087	23.8%
1976	\$ 12,844	\$ 11,199		\$ 1,645	**12.8%
			Free and Reduced Rate Mail	725	
			Reconciliation for Prior Years	none	
			Public Service	920	
1986	\$ 30,818	\$ 30,102		\$ 716	2.3%
			Free and Reduced Rate Mail	750	
			Reconciliation for Prior Years	(34)	
			Public Service	none	
2002	\$ 66,463	\$ 66,415		\$ 67	0.1%
			Free Mail for the Blind and Overseas Voting Material	56	
			Reconciliation for Prior Years	(8)	
			Public Service	none	

* The figures for 1971 are from the Post Office Department in the year prior to the creation of the Postal Service.

** This figure does not include the appropriation for Post Office Department Transitional Costs, which, upon receipt, are transferred directly to the Department of Labor.

CHAPTER 3 FINANCIAL HIGHLIGHTS

All funding will remain available until expended. We are required to submit quarterly expenditure plans on the obligation of all 2002 supplemental appropriations, as well as annual updates of the Emergency Preparedness Plan.

Funding has been expended during 2002 as follows (dollars in millions):

	Presidential Authorization	Congressional Appropriation
Funding	\$175	\$587
Operating expenses	16	—
Non-operating expenses	121	42
Capital equipment	38	—
Balance at September 30, 2002	\$ 0	\$545

We recorded the balance of \$545 million as a current liability. Detection and filtration systems are being tested and evaluated and will then be deployed in 2003. The liability will be reduced as expenses occur. Appropriations received for capital equipment will be offset against depreciation expense over the life of the equipment.

E. BREAST CANCER RESEARCH AND HEROES OF 2001 SEMIPOSTAL STAMPS

In 1997, Congress authorized the issuance of the first semipostal stamp for the specific purpose of raising funds from the American public to assist in finding a cure for breast cancer. The stamp currently is sold for 45 cents and is valid for the current cost of a one-ounce First-Class Mail letter. Congress directed that the difference between the price of the stamp and the First-Class Mail rate, less program costs, be directed to two designated research agencies, the National Institutes of Health (NIH) and the Department of Defense Medical Research Program. In accordance with the law, the General Accounting Office has reviewed this program.

From program inception through the end of 2002, approximately 402 million Breast Cancer Research stamps have been sold. Four years of sales raised a net voluntary contribution of \$27.9 million, of which \$5.7 million was raised in 2002.

The law provides for semiannual payments to be made on a schedule agreed to by the research agencies and the Postal Service. Proceeds from Breast Cancer Research stamp sales from July 28, 1998 through early September 2002 have been paid to the research agencies in a total of nine payments.

The costs associated with the Breast Cancer Research stamp include: design, printing, packaging, advertising, promotion, training, legal fees, market research, programming for retail automation and receipt printing costs. The Postal Service deducts selected incremental costs from Breast Cancer Research stamp revenues and then pays the proceeds to the research agencies. Through the end of 2002, approximately \$650,000 has been withheld to cover these incremental costs.

The Heroes of 2001 semipostal stamp, authorized by legislation enacted by Congress in 2001, provides assistance to the families of emergency relief personnel killed or permanently disabled in connection with the terrorist attacks of September 11, 2001. The stamp was issued in New York City on June 7, 2002 and sells for 45 cents. Like the Breast Cancer Research stamp, it is valid for the current cost of a one-ounce First-Class letter. It must be offered for sale through the end of 2004.

In 2002, 45.5 million Heroes stamps were sold. This has resulted in a contribution of \$3.9 million to the Federal Emergency Management Authority, which is responsible for disbursing payments to eligible recipients. Recovered costs to the Postal Service have been \$200,000.

This chapter responds to the requirements of the Government Performance and Results Act of 1993 (GPRA) by providing preliminary information on proposed Postal Service performance objectives, indicators, measurement systems, and improvement targets for 2004. The final plan will be published as part of the updated *Five-Year Strategic Plan* at the completion of the annual planning cycle in September.

2. EXPRESS THE GOALS IN OBJECTIVE, QUANTIFIABLE, AND MEASURABLE FORM

For each strategic area of emphasis, postal management has selected a limited number of shorter-term, nationwide objectives that are critical to the achievement of the strategic goals.

A. GPRA REQUIREMENTS

1. ESTABLISH PERFORMANCE GOALS

The Postal Service has established long-term performance goals in three strategic areas of emphasis:

- Growth (Voice of the Customer)
- Motivated, Productive and Inclusive Workforce (Voice of the Employee)
- Affordability (Voice of the Business)

The Postal Service has developed a disciplined process to establish the goals, objectives, indicators, and targets, assign resources to programs that support achievement of the targets (deploy), implement the programs, and review performance.

LONG-TERM STRATEGIC PERFORMANCE GOALS

FY2004

PRELIMINARY PERFORMANCE OBJECTIVES (SUB-GOALS)

VOC	Growth	Timeliness and Consistency <ul style="list-style-type: none"> ▪ Priority Mail (Air) On Time ▪ Priority Mail (Surface) On Time ▪ Express Mail On Time ▪ Overnight First-Class Mail On Time ▪ Two Day First-Class Mail On Time ▪ Three Day First-Class Mail On Time
VOE	Motivated, Productive and Inclusive Workforce Absences	<ul style="list-style-type: none"> ▪ Minimize Impacts from Accidents and ▪ Employees Committed to USPS Success
VOB	Affordability	<ul style="list-style-type: none"> ▪ Improve Productivity to Control Costs and Improve Contribution Levels, and Grow the Business

3. ESTABLISH PERFORMANCE INDICATORS TO BE USED IN MEASURING PERFORMANCE

Each objective has one or more associated results-oriented performance indicators, based upon valid and verifiable measurement systems, and specific improvement targets.

	FY 2004 Preliminary Performance Objectives (Sub-goals)	FY 2004 Proposed Measurement Systems	FY 2004 Preliminary Performance Targets
VOC	Timeliness and Consistency		
	Priority Mail (Surface) On Time Priority Mail (Air) On Time	Priority Mail End-to-End Measurement (PETE)	Proprietary Information Proprietary Information
	Express Mail On Time	Product Tracking System (PTS)	Proprietary Information
	Overnight First-Class Mail On Time Two Day First-Class Mail On Time Three Day First-Class Mail On Time	External First Class Measurement System (EXFC)	93% (Postal Quarters 1,2,3,4)* 88% (Postal Quarters 1,3,4)* 87% (Postal Quarters 1,3,4)*
VOE	Minimize Impact from Accidents and Absences	U.S. Occupational Safety and Health Administration (OSHA) Illness/Injury Rates	Better or Equal to Same Period Last Year
	Employees Committed to USPS Success	Voice of the Employee Survey	Better Than End of Year 2003
VOB	Improve Productivity to Control Costs and Improve Contribution Levels, and Grow the Business	National Total Revenue Total Factor Productivity	Better or Equal to Plan Better or Equal to Plan

Note: Service delivery indicators represent originating and destinating composite performance.

* Starting in FY 2004, the Postal Service will be converting to monthly reporting. If no adjustments are made, the quarterly scores for 2004 will not be comparable to quarterly scores in previous years. Accordingly, the time periods for these targets may be modified to provide comparable measures.

4. DESCRIBE THE PROGRAMS AND RESOURCES NEEDED TO ACHIEVE PERFORMANCE GOALS

Postal operational processes, skills, and the technological, human capital, information, and other resources needed to achieve performance goals are described in Chapters 1-3 of the *2002 Comprehensive Statement on Postal Operations*, and in the *USPS Transformation Plan*. Financial issues are described in detail in the *USPS 2002 Annual Report*.

5. PROVIDE A BASIS FOR COMPARING ACTUAL RESULTS WITH ESTABLISHED PERFORMANCE TARGETS

The *2002 Annual Performance Report* is provided as chapter 5 of the *Comprehensive Statement on Postal Operations*. Detailed financial results are provided separately in the *2002 Annual Report*.

6. DESCRIBE THE MEANS TO BE USED TO VERIFY AND VALIDATE PERFORMANCE MEASURES AND RESULTS

Wherever possible, the Postal Service uses measurement systems and data provided by independent systems operated by Postal Service contractors. Detailed descriptions will be provided in the *2004 Annual Performance Plan* to be published in September 2003. Postal systems and data are reviewed by senior postal management and the Board of Governors as part of the annual planning and review cycle of the Postal Service. Financial Statement data is independently audited by certified public accountants reporting to the Board of Governors.

Financial and operating data are monitored through extensive public evidentiary proceedings of the Postal Rate Commission. Postal policies, procedures, and processes are subject to audit by the Office of the Inspector General and the General Accounting Office.

B. EXPLAIN CHANGES IN GOALS, OBJECTIVES, INDICATORS, MEASUREMENT SYSTEMS, AND TARGETS³

The Postal Service has not made any changes in the goals and objectives (sub-goals) in the *2004 Preliminary Performance Plan*, compared to the previous year. Service performance measurement will be extended to include Quarter 1 for both Priority Mail two day air and First-Class Mail three day service. Improved service performance targets are proposed for both Priority Mail two day air service and First-Class Mail two day service.

The business environment of the Postal Service continues to change, based on the U.S. economy, the actions of competitors, the introduction and adoption of new technology, and other unpredictable events beyond the control of postal management. These have been described in detail in the *Transformation Plan*, April 2002.

As a result of these changes and the implementation of transformation initiatives, the framework for Postal Service strategic performance goals, objectives, and measures continues to evolve. Potential adjustments to performance objectives, indicators and

measurement systems are under review and may be incorporated into the final *2004 Annual Performance Plan*.

There are several important areas where postal performance is reported separately to relevant government agencies and to Congress. For example, the Postal Service *Affirmative Employment Annual Accomplishment Report* is filed with the Equal Employment Opportunity Commission (EEOC), as required. Results are reported quarterly, and detailed statistical information from the Diversity Reporting System (DVRS) is provided on request to the General Accounting Office, the EEOC, Congress, and other internal and external stakeholders. It is redundant to include this goal in the *Annual Performance Plan*.

It is important to limit the number of GPRA corporate goals to those issues that are critically important to the achievement of the mission of the Postal Service in order to focus attention on the most important results desired by postal customers and the American public. Several other management objectives previously included in the *Annual Performance Plan*, such as training, implementation of the REDRESS program, affirmative action, and customer satisfaction are still used by the Postal Service to drive performance. However, these objectives are more effectively tracked at the functional, unit, and individual level and have been incorporated into the National Performance Assessment program.

Congress has also indicated that agencies should develop additional specific goals during the GPRA process. During 2004 the Postal Service will be working on refining preliminary performance objectives and developing measures to address three new critical issues, as defined by Congress: Physical Security and Safeguarding the Mail; Ensuring Data Integrity and Reliability; and, Maintaining Information Security and Customer Privacy.

While these are important policy goals that have attracted considerable public and legislative attention, they do not directly support the key performance measures relevant to the mission of the Postal Service. Therefore, they will be assigned to specific functional areas, which have the primary responsibility for program implementation, such as the Postal Inspection Service or Information Technology, rather than adopted as corporate goals.

³ This is not a GPRA requirement. However, the General Accounting Office has recommended that the Postal Service include this in its GPRA Reporting.

In this chapter, the Postal Service presents its review of its actual performance compared to the *2002 Annual Performance Plan*.

A. INTRODUCTION

The Postal Service developed the *2002 Annual Performance Plan* through its structured management process and in consultation with Congress. The plan sets objectives for achievement for the year, as defined by specific goals, subgoals, indicators, and targets. Those 2002 goals and subgoals were approved by the Postal Service Board of Governors and were submitted to Congress in the United States Postal Service *2002 Annual Performance Plan*. Some of the goals were changed subsequent to the Plan's release based upon management's assessment of actual 2001 performance. These modifications were detailed in the *2001 Comprehensive Statement on Postal Operations*, Chapter V, 2001 Performance Report.

These performance measures go to the heart of the Postal Service's mission. They help evaluate the Postal Service's role as a government service providing universal postal service to the country. And they aim at the fulfillment of another element of our charter: that the Postal Service shall be self-sustaining, funding its operations through revenue generated by its products and services.

This report meets the requirements of the Government Performance and Results Act (GPRA), which mandates that the report:

- Review the success of achieving the performance goals of the fiscal year.
- Evaluate the performance plan for the current fiscal year (2002) relative to the performance achieved towards the performance goals in the fiscal year covered by the report (2002).
- Explain and describe, where a performance goal has not been met (including when a program activity's performance is determined not to have met the criteria of a successful program activity): why the goal was not met; those plans and schedules for achieving the established performance goal; and if the performance goal is impractical or infeasible, why that is the case and what action is recommended.
- Include the summary findings of those program evaluations completed during the year covered by the report.

This report includes a section highlighting the Postal Service's performance in 2002, a table itemizing our performance against each subgoal, a section detailing the performance for each goal, and, a table listing changes made to the 2003 Plan's goals and subgoals as a result of 2002 performance. A report on Evaluations of Programs, indicators and subgoals has been included in Chapter IV. Table 5.1, which follows, shows all goals, subgoals, indicators, and targets for 2002 and reports our performance to each target. Detailed discussion of Postal Service performance to specific indicators and subgoals of the 2002 Plan follows this table.

CHAPTER 5 2002 PERFORMANCE REPORT

TABLE 5.1 PERFORMANCE 2001: GOALS AND RESULTS

	GOAL	SUB GOAL	INDICATOR
VOC	Growth	Timeliness and Consistency	First Class Overnight On Time (EXFC) (Orig & Destinating Composite)
			Express Mail (Orig & Destinating Composite) On Time Next Day (PTS)
			Priority Mail (Orig & Destinating Composite) On Time Within 2 Days (PETE Network)
			FCM 2/3 Day (Orig & Destinating Composite)
			Delivery Confirmation Scan Rate (Priority Mail)
VOE	Motivated, Productive and Inclusive Workforce	Minimize Impact from Accidents and Absences	OSHA Illness/Injury Rate
		Employees Committed to USPS Success	VOE Survey
VOB	Affordability	Improve Productivity To Control Costs and Improve Contribution Levels and Grow the Business	Total Factor Productivity
			Area Productivity Improvement

Explanations: Items in parentheses describe the relevant measurement system. Italics indicate clarifications of relevant goal for operational implementation. Threshold items are basic requirements for maintenance; they must be achieved in order to qualify for consideration in other categories. All targets are subject to change to adjust for external factors, such as economic conditions and workload changes.

CHAPTER 5 2002 PERFORMANCE REPORT

	FY 2002 TARGET	FY2002 RESULTS
Threshold	93.0% (PQ 1,2,3,4)	93.7%
PFP 30% Weight	Proprietary information	Did not achieve target; proprietary information.
PFP 30% Weight	Proprietary information	Did not achieve target; proprietary information.
PFP 30% Weight	88% (PQ 3,4)	86.7% Did not achieve target.
PFP 10% Weight (2.5% Each Qtr)	98%, <5% Manual/Multiple Scan Composite (PQ 1,2,3,4)	Achieved target of <5%Manual/Multiple Scan Composite. Did not achieve target of 98% Delivery Confirmation Scan Rate in PQ1, 2.
Threshold	2% National Improvement allocated by opportunity	Exceeded target; 8.2% reduction in index score.
PFP	Equal or Better than FY 2001 (20% Each Q + 20% Year End)	Achieved target; Score of 58.8, a 0.7 improvement.
Threshold	At least 1% Over FY 2001	Achieved target; TFP growth of 1.1%.
PFP	Improve Over Hurdle	Exceeded hurdle in 7 of 9 Areas.
PFP	Improve Over Hurdle	Exceeded hurdle in 51 of 85 PCs

B. YEAR IN REVIEW

As did our nation itself, the Postal Service met the direct unprecedented challenges of 2002 with extraordinary, effective response.

Following the terrorist attacks of September 11, new airline security restrictions forced the Postal Service to obtain alternative ground transportation and implement new logistical arrangements over the course of several months. We maintained mail service throughout our national delivery network. Only weeks later, the mail was used as the conduit for bioterrorist attacks that caused the death of two postal employees, the illness of others, and the contamination and long-term closing of several postal facilities. We acted immediately to safeguard employees, customers and the mail, conducting extensive national health and safety information programs and installing new processes and high technology equipment to screen and decontaminate mail. Emergency preparedness and security initiatives remained a priority throughout the year and will continue into 2003.

Our response to these events added unforeseen new costs to our already constrained financial plan. We had cut expenses and restricted capital outlays as the recession lengthened, mail volumes declined and revenue growth slowed. With the compound consequences of these crises, we then estimated that we could experience a net loss in excess of \$4 billion. Instead, we finished the year with a net loss of \$676 million. This remarkable achievement resulted directly from decisive actions taken by postal management and employees to control expenses, the actions of the President and Congress to provide emergency preparedness funding and, the support of our stakeholders in the postal ratemaking community to supply \$1 billion of badly needed cash infusions with the early implementation of new rates.

For its part in this result, the Postal Service contributed remarkable accomplishments in 2002. We reduced costs by \$1,452 million net of the impact of reduced volume, and reduced operating expenses by over \$400 million from those of the previous year and \$2.9 billion below plan. Workhours declined by 78 million as we reduced complement by 23,000 career employees through attrition, and still extended delivery to 1.8 million new addresses. Despite the decline in mail volume workload, we increased Total Factor Productivity (TFP) by 1.1 percent for the year, equating to a savings of \$713 million. Historically, productivity had been achieved by absorbing workload increases. We continued a modified freeze on capital investments and held cash outlays to \$1.7 billion for the year. With

these cost reductions and stringent expense controls, we were able to reduce our debt outstanding by \$200 million from 2001, the first time in five years that we reduced debt.

1. BUSINESS PERFORMANCE

Because postage rates are set through a lengthy rate case process, productivity improvement programs are management's best avenue to address short term revenue variances. This is why all of our 2002 Voice of the Business goals and indicators focus on productivity, with targeted achievement to be measured at all levels of the organization. In 2002, we effectively restrained resource usage and realized a gain of 1.1 percent in TFP. Our three-year cumulative TFP growth of 5.0 percent is equivalent to an expense reduction of over \$3.0 billion. Not since 1993 have we achieved TFP growth of this magnitude. (Chapter III reports TFP performance in detail.)

Nonetheless, the cost efficiencies gained through these productivity programs were largely offset by structural and inflationary pressures on our revenue and costs. Our cost efficiencies allowed us to actually reduce 2002 total expenses by almost \$200 million below 2001 levels. We reduced work hours by 4.8 percent, using almost 78 million fewer work hours than in 2001. This offset the 4.1 percent increase in our labor cost per workhour. The reduction in work hours, coupled with a reduction in non-personnel expenses, produced total cost reductions of more than \$1.4 billion. However, health benefits, retirement costs, and workers' compensation expenses exerted substantial upward pressure on expenses, offsetting most of the cost reductions.

Due to the financial uncertainties caused by declining volumes and increasing costs, the Postal Service adopted a capital plan of \$2.4 billion in 2002 that was substantially below levels committed in most recent years. We instituted a process that prioritized all proposed capital projects, giving the highest priority to investments related to the safety of our employees and customers, legal requirements, emergencies and investments that produce labor efficiencies. Proposed investments that did not meet these criteria were effectively "frozen" until such time as our financial situation improved. Capital commitments were \$1.3 billion in 2002.

TABLE 5.2 PRODUCTIVITY SINCE 1990

	Total Factor Productivity		Output per Workhour ¹		Multi Factor Productivity ²	
	Annual ³	Cumulative From 1972	Annual	Cumulative From 1972	Annual ³	Cumulative From 1972
1990	2.9	8.6	3.4	13.9	(0.0)	11.3
1991	(1.8)	6.8	(0.1)	13.7	(1.0)	10.2
1992	0.4	7.2	1.0	14.8	2.0	12.2
1993	3.8	11.0	4.6	19.3	0.5	12.7
1994	(0.2)	10.9	0.8	20.2	1.0	13.7
1995	(1.9)	8.9	(1.3)	18.9	0.4	14.1
1996	(1.3)	7.6	(0.1)	18.8	1.4	15.5
1997	1.3	8.9	1.7	20.5	1.0	16.5
1998	(1.0)	7.9	1.2	21.7	1.2	17.7
1999	(0.1)	7.7	0.9	22.6	0.7	18.4
2000	2.2	9.9	2.0	24.6	1.7	20.1
2001	1.7	11.6	1.7	26.3	(0.1)	20.0
2002	1.1	12.7	2.2	28.5	2.7	22.8

¹Output per workhour measures the change in the relationship between workload (mail volume and deliveries) and the labor resources used to do the work. Our main output is delivering mail and services to an expanding delivery network.

²2001 and 2002 MFP Data are estimates of DRI-WEFA. BLS Data for these years has not yet been released.

³Historical data is subject to revision as certain data used in calculating productivity are periodically revised. Price indexes released by the Bureau of Labor Statistics and the Bureau of Economic Analysis that are used to calculate resource usage are subject to regular historical revisions by these agencies. When historical revisions are released, they are incorporated into the TFP calculation, can result in historical TFP revisions. TFP for the reporting year is also subject to revision when final Postal Service cost data for the reporting year is available. Generally, this revision occurs in April of the following year.

2. CUSTOMER SERVICE

Throughout 2002, the Postal Service maintained its primary focus on its mission of delivering outstanding customer service and value to the American people. The Postal Service exceeded the target for on-time performance for its flagship product, overnight First-Class Mail, achieving 94 percent on-time performance. The target was 93 percent on-time performance. However, the attacks of September 11, 2001 disrupted the nation's air transportation network to an unprecedented extent. Immediately following the attacks, commercial air transportation was grounded. National limitations on the carriage of parcels on air transport were then put in place. As a consequence, the Postal Service has been unable to use commercial air transportation to the same extent that it had prior to September 11, 2001. This change in air transportation availability required the Postal Service to change its national transportation and distribution plans for 2002 and to develop alternative resources. We required additional surface transportation and placed a greater reliance on our arrangement with FedEx to transport mail. Because these changes affected the entire national postal network, a period of time was necessary to integrate these new arrangements into ongoing postal operations.

Because of these disruptive impacts on the national transportation network, we were unable to meet our targets for the Express, Priority and 2/3 Day First Class Mail indicators for 2002. Nevertheless, the Postal

Service responded to this national crisis, developed new transportation resources and network systems and, restored and even improved service levels over the course of the year. During the last quarter of the fiscal year, we improved service over the previous quarter by more than 2.5 points for Express Mail service, 3.5 points for First-Class Mail (2- to 3-day) service and, 5.3 points for Priority Mail service. By the end of the year, record service levels had been achieved for several of the product lines.

3. EMPLOYEES AND THE WORKPLACE

In 2002, the Postal Service addressed the long-term goal of creating a motivated, productive and inclusive workforce with two primary goals: improving employee and workplace safety and, striving to ensure that employees are committed to USPS success. Our progress against these goals requires commitment of system-wide resources and is measured against specific quantitative indicators and targets. In themselves, these two goals and our achievements in meeting them are significant. In a broader context, they overarch and are supported by all other employee and workplace environment goals that we continue to pursue in programs and policies throughout the Postal Service.

Our long-established initiatives such as employee training programs, Affirmative Employment Plans, and the REDRESS mediation program, help drive accomplishment to the organization-wide employee and

workplace goals. They promote change and growth, provide opportunities for all employees, and enhance the value of the workforce through recruiting, retention and training strategies. Formerly organization-wide goals measured under GPRA; these initiatives are now institutionalized within the Postal Service and performance is measured at the program and unit level. Continued successful performance in these areas contributes to the results attained on the organization-wide 2002 performance goal indexes of employee and workplace safety that are the focus here.

In 2002, the Postal Service made progress toward improving its employees' safety, security and well-being. The 2002 indicator and target for the employee safety subgoal was a 2 percent decrease in the OSHA Illness/Injury Rate. The goal was exceeded with an 8.2 percent reduction from 2001 incident rates. In 2002, the Postal Service did achieve this target, realizing an OSHA Injury/Illness Rate of 7.72 accidents/illnesses per 200,000 work years. Data validation and analysis included a 100 percent review of our record keeping at year end as well as randomly conducted reviews throughout the year. In addition, we gained additional experience in interpreting OSHA's complex reporting system.

In 2002, the Postal Service met the employee Survey Index subgoal of equaling or improving the 2001 VOE Survey Index score of 58.1. In 2002, the Postal Service achieved a score of 58.8, an improvement of 0.7 of a point over 2001's baseline index.

C. THE PLANNING PROCESS

This Performance Report was developed as part of the ongoing planning process that responds to the Government Performance and Results Act of 1993. The plan was communicated to Congress in four steps. First, the *Preliminary 2002 Annual Performance Plan* was submitted to Congress in February 2001. Second, the 2002 Plan was amended thereafter to reflect the commentary of both the General Accounting Office (GAO) and the Office of Inspector General, and the *2002 Annual Performance Plan* was submitted to Congress and the American people in September 2001. Third, the plan was reviewed during the preparation of the *2001 Performance Report* included as Chapter 5 of the *2001 Comprehensive Statement*. Indicators and subgoals in the 2002 Plan were reevaluated at that time and adjusted to reflect actual 2001 results and the experience of the first half of the year. The *2001 Comprehensive Statement*, containing updated goals and subgoals for 2002, was submitted to Congress in

March 2001. And last, if necessary, correspondence has been sent to Congress to provide information on any needed changes to the plan.

D. THE THREE-VOICE STRUCTURE AND PERFORMANCE GOALS

As stated in the *2002 Annual Performance Plan*, the Postal Service organizes its corporate goals in a three-voice structure that addresses the fundamental areas of Postal Service performance:

- **The Voice of the Customer** goal category focuses Postal Service resources on growth to generate sufficient revenue to support the public service mission of universal service that "binds the nation together." Providing timely, consistent delivery across all classes of mail will increase customer satisfaction and generate growth in support of our central mission.
- **The Voice of the Employee** goal category focuses on creating a workplace environment that fosters a motivated, productive and inclusive workforce and embraces the values of fairness, opportunity, safety, and security.
- **The Voice of the Business** goal category focuses on maintaining the affordability of Postal Service products and services by improving productivity so as to control costs and improve contribution levels to grow business.

For each Voice, a goal statement focuses on the overall performance sought. For 2002, these are:

- **Voice of the Customer** — Provide services that meet the needs of different customers in competitive markets and grow the revenue necessary to support the public service mission of the Postal Service.
- **Voice of the Employee** — Motivated, Productive and Inclusive Workforce.
- **Voice of the Business** — Affordability.

The following section assesses Postal Service performance in each of these categories as measured according to the specific goals, subgoals, indicators, and targets set for each.

E. VOICE OF THE CUSTOMER PERFORMANCE GOALS: GROWTH

POSTAL SERVICE ANNUAL PERFORMANCE PLAN GOAL:

Provide services that meet the needs of different customers in competitive markets and grow the revenue necessary to support the public service mission of the Postal Service.

Performance Goal: Provide timely, consistent delivery across all classes of mail.

As stated in the plan, 2002 indicators and targets for this subgoal are:

- Achieve Overnight First-Class Mail on-time performance of at least 93 percent.
- Achieve targeted Express Mail on-time performance, as measured by the Product Tracking System (AM & PM).
- Achieve targeted Priority Mail on-time performance, as measured by the Priority End-to-End (PETE) system.
- Achieve two- and three-day First-Class Mail on-time performance of at least 88 percent.
- Set a performance baseline for the Delivery Confirmation Scan Rate – Parcel Post service.
- Set a performance baseline to improve Parcel Select service.
- Set a performance baseline to improve Standard Mail service.
- Achieve a Delivery Confirmation Scan Rate of 98 percent with combined Manual and Multiple scans of less than 5 percent.

In 2002, the Postal Service:

- Exceeded the performance target of 93 percent for on-time delivery of Overnight First-Class Mail with performance of 94 percent on-time. The established target for this EXFC measured target is the weighted originating/destinating result of Postal Quarters (PQ) I-IV. For 2002, in total, the Postal Service achieved Overnight First-Class Mail on-time performance of 94 percent, which exceeded the target for the period of external measurement.
- Did not achieve the performance target for Express Mail delivered the next day due to limited air transportation availability consequent to the terrorist attacks. The specific target and associated information is proprietary.

- Did not meet the target for Priority Mail on-time performance due primarily to the disruption in air service caused by the September 11 terrorist attacks. The established target for this PETE measured target is the weighted origin/ destination combined result of PQ III and IV performance. The specific target and associated information is proprietary.
- Did not achieve the performance target for EXFC two- and three-day mail of at least 88 percent on-time, also due to transportation problems resulting from the 9/11 terrorist attacks. The established target for this EXFC measured target is the weighted origin/destination combined result of PQ III and IV performance. The Postal Service achieved two- and three-day combined First-Class Mail on-time performance of 87 percent.
- Achieved the Delivery Confirmation Scan Rate target of less than 5 percent Manual/Multiple Scan Composite. During PQ I and II, Delivery Confirmation Scan Rate performance was within 0.5 percentage points of the target. Increased focus in this area resulted in achieving the target for PQ III and IV.

F. VOICE OF THE EMPLOYEE PERFORMANCE GOALS: A MOTIVATED, PRODUCTIVE AND INCLUSIVE WORKFORCE.

POSTAL SERVICE ANNUAL PERFORMANCE PLAN GOAL:

Foster a motivated, productive and inclusive workforce, improving employees' safety and well being and their commitment to USPS success.

Performance Subgoal 1: Minimize impact from accident and injury.

As stated in the plan, the 2002 indicator and targets for this goal were:

- Improve performance to the OSHA Illness/Injury Rate indicator with a target rate of 8.41, a 2 percent improvement nationally, allocated by opportunity.

In 2002, the Postal Service:

- Exceeded the target for this performance goal by bettering our 2001 performance to the OSHA Illness/Injury Rate and achieving an index score of 7.72.

- Achieved an 8.2 percent reduction in the 2001 index score.
- Improved record keeping, data validation, and analysis systems for this index.
- Completed a 100 percent review of our record keeping at year end as well as random reviews throughout the year. In addition, we gained experience in interpreting OSHA's complex reporting system for this index that has been only recently adopted by the Postal Service.

Performance Subgoal 2: Employees Committed to USPS Success.

As stated in the plan, the 2002 indicator and targets for this subgoal are:

- Equaling or bettering the 2001 Voice of the Employee (VOE) results.
- Improvement of 20 percent per quarter.
- Improvement of 20 percent Year-end.

In 2002, the Postal Service:

- Attained the goal, bettering last year's Employee Survey Index score of 58.1.
- In 2002, the Postal Service achieved a score of 58.8, which was a 0.7 of a point improvement over 2001's baseline index.
- The target of 1.1 percent improvement in performance against this index was exceeded, marginally, with a 1.2 percent improvement over 2001 performance.

G. VOICE OF THE BUSINESS PERFORMANCE GOALS: FINANCIAL PERFORMANCE

POSTAL SERVICE ANNUAL PERFORMANCE PLAN GOAL:

Generate financial performance that ensures commercial viability of the Postal Service as a service provider in a changing, competitive market place, and generate cash flow to finance high-yield investments for the future while providing competitively-priced products and services.

Performance Subgoal 1: Improve overall business performance.

As stated in the plan, 2002 indicators and target for this subgoal are:

- Improve Area Productivity over a "hurdle" rate.
- Improve Performance Cluster Productivity over a hurdle rate.

In 2002, the Postal Service:

- Achieved Productivity over the hurdle in seven of nine areas.
- Achieved Productivity at the performance cluster (PC) level over the hurdle rate in 51 of 85 PCs.

Performance Subgoal 2: Control costs by achieving productivity gains.

As stated in the plan, the 2002 indicator and target for this subgoal is:

- Achieve a Total Factor Productivity (TFP — a measure of total resource usage efficiency, including capital) gain of 1.0 percent.

In 2002, the Postal Service:

- Exceeded the target for TFP growth, achieving TFP growth of 1.1 percent. This achievement is equivalent to \$713 million. The growth of TFP in 2002 was brought about by managed restraint on resource usage. Workhours declined by 4.9 percent, materials use was reduced by 0.9 percent, and total resources use was reduced by 2.9 percent. The TFP target is an outgrowth of the productivity gain implicit in our budget and must be determined through calculations based on actual figures.
- Achieved the Output per Workhour productivity goal of 2.0 percent. Actual Output per Workhour was 2.2 percent. When mail volumes were lower than anticipated in 2002, management reduced all resource usage, including the labor use component of TFP, which was reduced by 4.0 percent. This ameliorated the impact of lower volume growth rates on the Output per Workhour productivity factor.

H. EVALUATION OF 2002 PERFORMANCE AND CHANGES TO GOALS AND SUBGOALS IN THE 2003 PLAN

In this subchapter, the Postal Service evaluates the performance plan for 2003, relative to the performance achieved toward the performance goals of 2002 covered by this report.

In complying with GPRA requirements to report this evaluation, the Postal Service submits two tables: Table 5.1 and Table 5.3.

Table 5.1, "Performance 2002: Goals and Results," leads this chapter. It itemizes 2002 performance to each goal, subgoal, indicator and target of the *2002 Annual Performance Plan*.

Table 5.3, "FY 2003 Goals, Subgoals, Indicators, and Targets," follows here. This table lists all Fiscal Year 2003 goals, subgoals, indicators and targets of the latest *2003 Annual Performance Plan* for each of the three Voices of the Postal Service Management Process: the Voice of the Customer, the Voice of the Employee, and the Voice of the Business. There are no changes proposed to this table. It is the same as that published in our *2003 Annual Performance Plan* issued at the end of September 2002.

A Note on Goals Evaluated: In the *2001 Performance Report*, Chapter V of the *2001 Comprehensive Statement on Postal Operations*, the Postal Service included as a reference a matrix of Postal Service program-level goals, Table 5.4 FY 2002 Goals, Subgoals, Indicators and Targets Individual Merit Process. The intent of GPRA performance measures and reporting is to focus primarily on results that are directly relevant to the core mission of the agency. We do not evaluate performance to those program goals in this GPRA report.

Discontinued goals in this program-level category — Affirmative Action/EEO, REDRESS, and Training Hour, for example — are actually programs that support organization-wide VOE goals and objectives. The effectiveness of these programs is ultimately measured by the VOE Survey. Performance to these program goals is measured directly at the program and managerial level throughout the organization and is reviewed regularly by Postal Service management. Program accountability is more appropriately addressed at the program/unit and individual level in the National Performance Assessment. In many cases, program level performance on indicators such as Affirmative Action/EEO results are separately reported, e.g., quarterly and annual reports to the EEOC, and are regularly available to stakeholders.

CHAPTER 5 2002 PERFORMANCE REPORT

TABLE 5.3 FY2003 GOALS, SUBGOALS, INDICATORS AND TARGETS

	GOAL	SUB GOAL	INDICATOR
VOG	Growth	Timeliness and Consistency	Priority Mail On Time (PETE) (Orig & Destinating Composite) Surface Network Within 2 Days [Note 1]
			Priority Mail On Time (PETE) (Orig & Destinating Composite) Air Network Within 2 Days [Note 1]
			Express Mail On Time (PTS) (Orig & Destinating Composite) Next Day
			FCM On Time (EXFC) (Orig & Destinating Composite) Overnight
			FCM On Time (EXFC) (Orig & Destinating Composite) 2 Day
			FCM On Time (EXFC) (Orig & Destinating Composite) 3 Day
VOE	Motivated, Productive and Inclusive Workforce	Minimize Impact from Accidents and Absences	OSHA Illness/Injury Rate
		Employees Committed to USPS Success	VOE Survey
VOB	Affordability	Improve Productivity To Control Costs and Improve Contribution Levels and Grow the Business	National Total Revenue
			Total Factor Productivity

Explanations: Items in parentheses describe the relevant measurement system. Italics indicate clarifications of relevant goal for operational implementation. Threshold items are basic requirements for maintenance; they must be achieved in order to qualify for consideration in other categories. All targets are subject to change to adjust for external factors, such as economic conditions and workload changes.

Note 1: the Air and Surface Networks consist of those O&D pairs that define the Air and Surface Networks for 2002.

FY 2003 TARGET**PERIOD**

Proprietary Information	Composite Goal for Quarters 1, 3 and 4
Proprietary Information	Composite Goal for Quarters 3 and 4
Proprietary Information	Composite Goal for Quarters 1, 3 and 4
93% (PQ 1,2,3,4)	Fiscal Year
87 (PQ 1,3,4)	Composite Goal for Quarters 1, 3 and 4
87 (PQ 3,4)	Composite Goal for Quarters 3 and 4
Better or Equal to SPLY	Fiscal Year
Better than EOY 2002	Fiscal Year
Better or Equal to Plan	Fiscal Year
Better or Equal to Plan	Fiscal Year

Access.....	60	Employee Assistance Program	20
Address Change Service	66	Employee career advancement	9
Address database quality	64	Employee compensation	9
Address element correction.....	64	Employee development	14
Address management.....	62, 63	Energy	29
Address quality improvement	64	Environmental programs	28
ADVANCE Notification and Tracking System	66	Equal Employment Opportunity	11
Advertising mail (see Standard Mail)		Executive Mail Center Manager Program	36
Affirmative employment program.....	6	Expenses	70
Air tracking system, dedicated	49	Experimental Periodicals Co-Palletization	
Airline assignment, automatic	49	Drop Ship Discounts (MC2002-3)	23
Anthrax eradication, purchases for	31	Experimental Suspension of	
Appropriations	74	Fee for Manual Delivery	22
Automation, flat mail.....	47	Facilities	29
Automation, letter mail	45	Financial highlights	69
Automation, parcels	47	Financial management initiatives.....	66
Barcode certification	64	First-Class Mail Service Standards	
Business mail acceptance.....	48	Complaint Case (C2001-3)	23
Business service network	53	Flats	39
Capital One Negotiated		Flexible Spending Accounts.....	14
Service Agreement (MC2002-2)	23	Forwarding.....	64
Change of Address	62	General ledger, replacement	67
Channel management.....	58	Government Performance	
Click-N-Ship.....	40	and Results Act of 1993	3
Coding Accuracy Support System	64	Governors, Board of	2
Collection Box Management System	66	Health insurance	13
Collective bargaining.....	9	Hispanic program	6
Combined Federal Campaign	12	Hybrid mail services	60
Compensation and benefits.....	12	Income and expense statement.....	71
Confirm Classification Case (MC2002-1)	22, 66	Information Platform	61
Corporate contact management	38	Information technology infrastructure.....	61
Costing, activity based	67	Injury compensation	12
Customer feedback analysis	35	Intern programs, new	11
Customer relationship management	53	International mail	41
Customer satisfaction ratings	45	Internet	59
Delivery Confirmation	41	Leave programs	13
Delivery Operations Information System.....	50	Letters	38
Delivery points (total addresses served)	50	Licensing program	52
Delivery unit operations.....	50	Life insurance.....	13
Dependent care	21	Locatable Address Conversion System.....	65
Disabilities, employment of individuals with	5	Mail distribution	45
Diversity	5	Mail processing, support systems for.....	49
Diversity, supplier	33	Mail Recovery Centers	37
Domestic Mail Manual, revised	58	Mail transport equipment	26
Electronic address sequencing	65	Mail volume, historical and projected.....	43
Electronic Publication Watch		Mailers Technical Advisory Committee	37
System (ePUBWATCH)	66	Managed Service Points	50
Electronic services, secure	59	Management associations, consultation with	11
Emergency preparedness funding	75	Marketing technology	58
		Material handling	48

Merit pay performance evaluation	13	Selection, evaluation and recognition	18
Monthly reporting	67	Self service	56
Move Update implementation	65	Semipostal stamps:	
Multiline Accuracy Support System	64	Breast Cancer Research, Heroes of 2001	76
National diversity recognition program	5	Service performance measurement	44
National Postal Forum.....	35	Service to small or rural communities	9
Omnibus Rate Case (R2001-1)	21, 57	Sexual harassment prevention.....	7
Operations planning	63	Shared services, accounting	67
Package services	40	Sorting technology	46
Package Summit	41	Special emphasis program	7
Parcel select	40	Special services	39
Pay and benefits, executive.....	13	Staffing and scheduling	63
Pay and benefits, non-bargaining unit employees.....	12	Stamp program	51
Pay comparability	12	Stamps on Consignment.....	56
Payment services, online.....	60	Standard mail.....	40
Performance and Field Operations support group.....	4	Strategic analysis and support	4
Performance Report, 2002	81	Strategic planning.....	3
Periodicals pricing test	58	Subscription based pricing	58
Personnel.....	11	Succession planning.....	11
Point-of-Service One (POS ONE)	55	Sunday and Holiday Collections Complaint Case (C2001-1)	24
Postage technology initiatives	56	Supply management.....	30
Postal Career Executive Service.....	11	Surface Air Management System	50
Postal cost apportionment and postal ratemaking developments	21	Surface Air Support System	50
Postal Customer Council.....	36	Terminal dues and transit charges.....	25
Postal operations	35	Thrift Savings Plan	14
PosteCS complaint Case (C99-1)	24	Time and attendance control system	68
Preliminary 2004 Annual Performance Plan.....	77	Training	14
Presort Accuracy Validation Evaluation.....	65	Transformation Plan	4
Pricing and Classification	57	Transportation Information Management System	49
Privacy.....	35	Transportation, mail	25
Product development	38	Tray sleever	49
Product redesign	41	Tray sorter	49
Productivity	73	Undeliverable-as- addressed mail.....	46, 62
Rapid Information Bulletin Board System (RIBBS).....	65	Veterans' employment	6
Real estate inventory	29	Violence prevention and crisis management	20
Realty asset management.....	29	Welcome Kit.....	65
REDRESS	11	Women's program	7
Remote encoding centers	46	Workers compensation expense	70
Retail	54		
Retail, standard accounting for	67		
Retirement systems	14		
Revenue.....	69		
Ride-Along Experiment Extension Case (R2001-3)	22		
Safety and health	26		
Sales, commercial	53		
Security, information technology	61		

MAIL IT'S REAL

***I CHECKED MY BOX AND YOUR LETTER WAS THERE,
COMPLETE WITH A KISS. THAT IS SO EXCITING!
I'VE BEEN WALKING ON A CLOUD EVER SINCE.***

KENNETH JOHNSON, 35

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