

2005 COMPREHENSIVE STATEMENT ON POSTAL OPERATIONS



Everywhere,  
Every day



# Table of Contents

TRADEMARK .....	iv	<b>E. Transportation Policies</b> .....	20
YEAR REFERENCES.....	iv	1. General.....	20
<b>Chapter 1.....</b>	<b>1</b>	2. Domestic Transportation.....	20
<b>Compliance with Statutory Policies</b>		3. International Transportation.....	20
<b>Introduction</b> .....	1	4. Postal Service-Owned Transportation.....	21
<b>A. Fundamental Service to the People</b> .....	1	5. Mail Transport Equipment .....	22
1. General.....	1	<b>F. Postal Service Facilities, Equipment,</b>	
2. Board of Governors.....	2	<b>and Supplies</b> .....	22
3. Strategic Planning .....	4	1. Environmental Programs .....	22
<b>B. The Workforce</b> .....	6	2. Facilities .....	23
1. Opportunity .....	6	3. Supply Management.....	24
2. Diversity.....	7	4. Mail Security Equipment .....	26
3. Compensation and Benefits .....	9	<b>Chapter 2.....</b>	<b>27</b>
4. Environment.....	10	<b>Postal Operations</b>	
5. Planning .....	14	<b>A. Public Perceptions, Customer Outreach,</b>	
6. Labor Relations .....	15	<b>and Mailer Liaison</b> .....	29
<b>C. Service to Small or Rural Communities</b> .....	16	1. Customer Feedback Analysis.....	29
<b>D. Postal Cost Apportionment and Postal</b>		2. Privacy.....	29
<b>Ratemaking Developments</b> .....	16	3. Customer Outreach and Mailer Liaison .....	29
1. Postal Rate and Fee Changes Pursuant		<b>B. Mail Volume and Service Performance</b> .....	31
to Public Law 108-18:		1. Mail Volume .....	31
Docket No. R2005-1 .....	16	2. Service Performance .....	32
2. Experimental Premium Forwarding Service:		3. Customer Satisfaction.....	32
Docket No. MC2005-1 .....	17	<b>C. Products and Services</b> .....	33
3. Rate and Service Changes to Implement		1. Correspondence and Transactions.....	33
Functionally Equivalent Negotiated Service		2. Direct Mail .....	33
Agreement with HSBC North America Holdings Inc.:		3. Value Added and Special Services.....	34
Docket No. MC2005-2 .....	17	4. Alternative Mail Solutions.....	35
4. Experimental Priority Mail Flat-Rate Box:		5. Package Services.....	35
Docket No. MC2004-2 .....	17	<b>D. International Mail</b> .....	36
5. Rate and Service Changes to Implement		1. Volume and Revenue .....	36
Functionally Equivalent Negotiated Service		2. Improving International Services.....	36
Agreement with Bank One Corporation:		3. State Department	
Docket No. MC2004-3 .....	17	Coordination/UPU Congress.....	36
6. Repositionable Notes Market Test:		<b>E. Mail Distribution</b> .....	37
Docket No. MC2004-5 .....	18	1. Automation Activities .....	37
7. Complaint of Time-Warner, Inc. et al.,		2. Remote Encoding .....	38
Concerning Periodical Rates:		3. Process Improvements .....	38
Docket No. C2004-1 .....	18	4. Material Handling .....	39
8. Complaint on Electronic Postmark:		5. Support Systems.....	40
Docket No. C2004-2 .....	18	<b>F. Delivery Unit Operations</b> .....	40
9. Complaint on Stamped Stationery:		1. Delivery Point Sequencing.....	40
Docket No. C2004-3 .....	19	2. Carrier Optimal Routing .....	41
10. Complaint on Collection Box Removal:		3. Electronic Publication Watch System .....	41
Docket No. C2003-1 .....	19	4. ADVANCE Notification and	
11. Complaint on First-Class Mail Service		Tracking System.....	41
Standards: Docket No. C2001-3 .....	19	5. Collection Point Management System.....	41
12. LeMay v. United States Postal Service,		6. Mail Security.....	41
No. 05-4001 (W.D. Ark).....	19		
13. Rulemakings.....	19		

# Table of Contents

<b>G. Stamp Services</b> .....	42	<b>Chapter 3</b> .....	<b>55</b>
1. Stamp Program .....	42	<b>Financial Highlights</b>	
2. Production Activities .....	42	<b>A. Financial Summary</b> .....	57
3. Stamp Fulfillment Services Activities .....	42	1. Revenue .....	57
<b>H. Licensing</b> .....	42	2. Expenses .....	59
<b>I. Service and Market Development</b> .....	42	3. Net Income .....	61
1. Commercial Sales.....	42	4. Financing Debt .....	61
2. Business Service Network.....	43	5. Capital Investment.....	63
3. Customer Relationship Management .....	43	<b>B. Total Factor Productivity</b> .....	64
4. Engaging Employees to Grow Revenue.....	43	<b>C. Postal Civil Service Retirement System Funding Reform Act of 2003 (Public Law 108 — 18)</b> .....	65
<b>J. Retail Programs</b> .....	43	<b>D. Federal Government Appropriations</b> .....	65
1. Retail Sales .....	43	<b>E. Emergency Preparedness Funding</b> .....	67
2. Building Customer Awareness and Satisfaction .....	43	<b>F. Semipostal Stamps</b> .....	68
3. Point-of-Service ONE.....	44		
4. Retail Operations.....	44	<b>Chapter 4</b> .....	<b>69</b>
5. Retail Alternative Access.....	44	<b>2005 Annual Performance Report and Preliminary 2007 Annual Performance Plan</b>	
<b>K. Pricing and Classification</b> .....	46	<b>Government Performance and Results Act (GPRA) Requirements</b> .....	71
1. Negotiated Service Agreements.....	46	1. Generate Revenue: Total National Revenue.....	71
2. Priority Mail Flat-Rate Box.....	46	2. Reduce Costs: Total Factor Productivity .....	71
3. Repositionable Notes .....	46	3. Achieve Results with a Customer- Focused, Performance-Based Culture: Workplace Improvement, Developing People, and Safety. ....	72
4. Premium Forwarding Service .....	46	4. Improve Service: Timely, Reliable Delivery.....	73
5. Parcel Return Services .....	47		
6. Co-palletization Drop Ship Incentives.....	47	<b>Index</b> .....	<b>76</b>
7. Domestic Mail Manual Redesign .....	47		
8. Pricing and Classification Service Center .....	47		
9. National Customer Rulings .....	47		
10. Escrow Rate Case (R2005-1).....	47		
11. International Price Adjustment.....	47		
<b>L. Technology</b> .....	48		
1. Advance Computing Environment/ Upgrading the Infrastructure .....	48		
2. Information Technology Security.....	48		
3. Universal Computing Connectivity .....	48		
4. Enterprise Data Warehouse.....	48		
<b>M. Intelligent Mail</b> .....	49		
1. OneCode Vision.....	49		
2. Enabling Infrastructure.....	49		
3. Address Quality.....	50		
<b>N. Financial Management</b> .....	52		
1. Activity-Based Costing.....	52		
2. Financial Reporting.....	52		
3. Bank Secrecy Act Compliance.....	52		
4. Internal Controls.....	53		
5. Capital and Program Evaluation Project Management Web Site.....	53		



## TRADEMARKS

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## YEAR REFERENCES

All references to a specific year or "the year" refer to the government fiscal year ending September 30. However, specific month and year references pertain to the calendar date.

**Chapter 1**  
**Compliance with Statutory Policies**







### Introduction

In 1976 the Postal Service filed its first annual comprehensive statement to comply with an amendment to the 1970 Postal Reorganization Act. The amendment, now codified as Title 39, United States Code (USC), Section 2401 (e), required that a comprehensive statement accompany the annual Postal Service budget submission to Congress. The amendment further required the Postal Service to explain and address (1) the plans, policies, and procedures designed to comply with the statutory mission of the Postal Service; (2) general postal operations, including data on service standards, mail volume, productivity, trends in postal operations, and analyses of the impact of internal and external factors upon the Postal Service; (3) financial information relating to expenditures and obligations incurred; and (4) other matters necessary to ensure that Congress is “fully and currently consulted and informed on postal operations.”

Unlike the annual report of the Postal Service, which has been published since 1789 and which focuses primarily on Postal Service finances, the comprehensive statement summarizes the initiatives, accomplishments, and challenges faced by the Postal Service in the previous year. The comprehensive statements published since 1976 describe how the Postal Service has evolved over that period, the policy decisions that directed the changes, and the factors that influenced those policy decisions.

The format of comprehensive statements has remained consistent since the first publication. Chapter 1 deals with statutory requirements and details how the Postal Service met those requirements for the year addressed. Chapter 2 reviews operational changes, including automation and technological improvements, and explains current products and services. Chapter 3 provides an overview of Postal Service finances for the preceding year, described in more detail in the annual report. Chapter 4 includes the Annual Performance Report for the preceding year and the Annual Performance Plan for the following year, as is required by the Government Performance and Results Act (GPRA).

The *2005 Comprehensive Statement on Postal Operations* is available in hard copy and may be found on the Internet at [www.usps.com/financials/cspo/welcome.htm](http://www.usps.com/financials/cspo/welcome.htm). For policymakers, stakeholders, and members of the general public interested in the Postal Service, the *2005 Comprehensive Statement* and the *2005 Annual Report* provide detailed information about what the Postal Service accomplished in 2005. The *Strategic Transformation Plan 2006–2010* looks toward the future and describes the organization's strategic goals and plans for achieving them. Combined, these three documents provide a comprehensive overview of the Postal Service.

### A. Fundamental Service to the People

#### 1. General

In 2005 the Postal Service achieved considerable success in a marketplace defined by increased competition in hard copy and package delivery as well as growth in electronic communications. A continued focus on service performance, customer convenience, cost management, and operational efficiency, strategies identified in the 2002 *Transformation Plan*, combined with a third straight year of rate stability, delivered greater value than ever for commercial mailers and consumers, driving total mail volume to a record 212 billion pieces.

Independently measured service scores show that on-time, overnight First-Class Mail delivery held at a record 95 percent, rising to 96 percent in Postal Quarter III. Service remained strong in other categories, as well. While customer satisfaction scores, also independently measured, matched a record 94 percent favorable at year end, they were marked by steady growth in the “excellent” and “very good” categories, strong indicators of customer loyalty.

Despite upward cost pressures resulting from delivery point growth of 2 million new addresses and rising benefit and fuel costs, the Postal Service met its 2002 *Transformation Plan* goal of removing \$5 billion in costs by the end of 2005 — one year ahead of schedule — contributing to a record sixth straight year of positive total-factor productivity. And, through attrition, career employment has retreated to pre-1985 levels.

Outstanding debt was eliminated, reflecting both management efforts and the benefit of 2003 legislation reducing the Postal Service's overpayment to the Civil Service Retirement System.

Excellent customer service is tied directly to the efforts of Postal Service employees. With this in mind, the Postal Service has maintained its focus on developing a positive and productive workplace environment that encourages the best from each employee. The Postal Service has expanded participation in joint initiatives with the Occupational Safety and Health Administration and employee unions to improve workplace safety. These include the Voluntary Protection Program and the Ergonomic Risk Reduction Program. The Postal Service has reduced outstanding grievances and improved dispute-resolution processes. A new approach to hiring emphasizes the skills that contribute to success in a customer-service organization. Understanding that a well-informed workforce is a key to business success, the Postal Service established an extranet site, LiteBlue, to provide news, information, and self-service transactional features to employees through their home computers. The Postal Service's quarterly workplace environment survey — sent to all career employees once a year — continued to show

improvement, both in the response rate and the positive ratings on an index of key indicators.

The Postal Service's focus on the customer emphasizes ease of use, greater access, and product offerings that offer value and respond to customer needs. New features, including hold mail, change of address, insurance online, Click-N-Ship, Carrier Pickup, and electronic return receipts made *usps.com*, the online Post Office, more popular than ever. Several customer contact points were streamlined to make it easier for commercial customers to do business with the Postal Service. These include a redesigned Direct Mail Web site, a new Business Service Network self-service feature, and electronic postage statement submission.

The introduction of Priority Mail flat-rate boxes, in two convenient sizes, enhances the utility of this expedited service for consumers and small businesses. Premium Forwarding Service makes it possible for customers temporarily away from their permanent address to receive all of their mail, quickly, at their temporary location. Global Express Mail service was enhanced, in cooperation with five Pacific rim postal administrations, to provide date-certain guaranteed service to China, Hong Kong, Australia, Korea, and Japan.

With the launch of Business Connect, postmasters and station managers in communities from coast to coast are meeting with local business customers and introducing them to direct mail opportunities and a suite of package services. They are building on research that demonstrates the unique advantages of mail for customer acquisition, customer relationship management, and business enhancement. In addition, the debut of *Deliver* magazine has helped marketing and advertising professionals rediscover the power and value that direct mail brings to integrated advertising programs.

## 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.

The Board meets on a schedule that it establishes annually. The Chairman and Vice Chairman are elected at the annual meeting in January.

The Board directs the exercise of 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 re-delegation, as it deems desirable. The Governors are authorized to establish reasonable and equitable classes of mail and reasonable and equitable rates of postage and fees for postal services. By statute the Governors alone decide how to respond to recommended decisions of the Postal Rate Commission on postal rate and mail classification changes. The Governors may approve, allow under protest, reject, or by unanimous written decision in certain circumstances, modify recommended Postal Rate Commission decisions.

Government Fiscal Year 2005 began on October 1, 2004, and ended September 30, 2005. The Board held meetings in each month except October, March, and July. Each scheduled meeting consisted of two sessions with one session being closed to the public and one session open to the public in accord with the provisions of the Government in the Sunshine Act. Altogether, there were 12 days of regularly scheduled meetings in 2005. Six of these meetings were held in Washington, D.C. The three meetings not held in Washington, D.C. were: February 2005 in Sarasota, Florida; May 2005 in Atlanta, Georgia; and August 2005 in Newport Beach, California. In addition to the scheduled meetings, the Board held three special meetings on March 25, March 31, and July 15, 2005. These meetings were held in Washington, D.C. by telephone conference call.

## Chapter 1 Compliance with Statutory Policies

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

In November 2004 the Governors approved two Postal Rate Commission Opinion and Recommended Decisions, one relating to Priority Mail service and the other relating to a negotiated service agreement. The Board also approved a filing with the Postal Rate Commission concerning an experimental new Premium Forwarding Service. The Board also approved its meeting schedule for the 2005 calendar year, the budget for the Office of the Governors, and capital funding for the Intelligent Mail Data Acquisition System.

In December 2004 the Board approved the audited 2004 financial statements, the *2004 Annual Report* and the 2006 appropriation request to Congress. The Board also approved additional capital funding for biohazard detection equipment and new capital funding for logistics and distribution centers in Bethpage, New York, and Kearny, New Jersey.

In January 2005 James C. Miller III was elected Chairman of the Board and Alan C. Kessler was elected Vice Chairman. The Board approved the annual report on Government in the Sunshine Act Compliance, a resolution on capital funding, and the *2004 Comprehensive Statement on Postal Operations*. The Board approved capital funding for the Southern Maine Processing and Distribution Center. The Governors also approved the Postal Rate Commission Opinion and Recommended Decision concerning Repositionable Notes.

In February 2005 the Governors approved, under protest, implementation of the Postal Rate Commission Opinion and Recommended Decision concerning a negotiated service agreement. The Decision was resubmitted to the Commission for reconsideration. The Board also approved a filing with the Postal Rate Commission for a new negotiated service agreement. The Board also approved capital funding for the Atlantic City, New Jersey Main Post Office.

At a special meeting on March 31, 2005, the Board approved the filing of an across-the-board omnibus rate case with the Postal Rate Commission to cover the required escrow payment.

In April 2005 the Governors and the Postmaster General selected Patrick R. Donahoe to be the Deputy Postmaster General.

In May 2005 the Governors approved a Postal Rate Commission Opinion and Recommended Decision concerning an experimental Premium Forwarding Service.

In June 2005 the Governors approved a Postal Rate Commission Opinion and Recommended Decision concerning a negotiated service agreement. The Board approved a filing with the Postal Rate Commission for another negotiated service agreement. The Board approved the following capital investment projects: Modification to Automated Package Processing System; Flats Recognition Improvement Program Phase II; 1,406 Tractors and 382 Spotters; and 3,120 Carrier Route Vehicles.

In August 2005 the Board approved capital investments for the Postal Automated Redirection System Phase II and Distribution Quality Improvement.

In September 2005 the Board approved a filing with the Postal Rate Commission to make permanent an experimental parcel return service. The Board approved additional funding for the Kansas City, Missouri, Main Post Office. The Board approved its schedule of meetings for calendar year 2006 and the Governors approved the budget for the Postal Rate Commission for 2006. The Board approved the *Strategic Transformation Plan 2006 – 2010* and the *2006 Annual Performance Plan* in compliance with the GPRA. The Board also approved the Postal Service 2006 operating and capital investment plans.

**Table 1-1 Management Annual Planning Cycle**

	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.
Establish	Set preliminary targets for the next year.							Set final targets for the next year.				
Deploy				Negotiate requirements and develop budgets for the next year with headquarters' departments and field operating units.								
Implement	Implement and manage current year's programs and budgets.											
Review	Assess prior year's performance.			Monitor current performance and adjust programs, budgets, and, where necessary, targets.								

### 3. Strategic Planning

The process of strategic planning in the Postal Service includes an ongoing assessment of the business environment; formulation of strategic goals, performance measures, and targets; and tracking and integration of major strategic programs.

#### STRATEGIC PLANNING CYCLE

The strategic planning cycle includes development and deployment of performance targets, assignment of accountability, allocation of necessary resources, program implementation, and program review and reevaluation. Each year, the Postal Service establishes organizational objectives, performance indicators, and measurement systems, and sets annual targets in compliance with the requirements of the Government Performance and Results Act.

#### STRATEGIC TRANSFORMATION PLAN 2006–2010

The *Strategic Transformation Plan 2006–2010*, published September 2005, is the Postal Service's blueprint for the future. It builds on the foundation of the 2002 *Transformation Plan* and commits the Postal Service to new advances in service, customer convenience, productivity, and employee engagement. The *Plan* describes how the Postal Service will improve the value of mail and sustain a financially stable enterprise that best serves the nation's mailing needs for affordable and reliable universal service. The *Plan* describes strategic challenges, trends, and transformation strategies, and gives stakeholders essential information on policies, programs, resources, and performance. It is organized around four main goals: generate revenue, reduce costs, achieve results with a customer-focused, performance-based culture, and improve service. The *Plan* will be adjusted and updated annually to accommodate continuing changes in the Postal Service's business environment. Established goals, strategies, and targets are then distributed and communicated throughout the Postal Service for implementation.

#### STRUCTURAL RESPONSIBILITY FOR IMPLEMENTATION

Postal Service operations are managed and supported by a headquarters and field organizational structure streamlined over the years for maximum efficiency and responsiveness. Headquarters management reports to the Postmaster General and consists of three executive vice presidents, three senior vice presidents, 16 vice presidents, the Chief Inspector, and Judicial Officer. The Deputy Postmaster General and Chief Operating Officer has management responsibility for the headquarters and field operations which consists of 13 officers. Responsibility for operations within each of the eight area offices and Capital Metro Operations rests with the eight area vice presidents, Area Operations, and the Manager, Capital Metro Operations.

The area offices have oversight for 80 performance clusters. Performance clusters, some spanning multiple states, consist of customer service district offices and processing and distribution centers.

# Chapter 1

## Compliance with Statutory Policies

**Table 1-2 Area Office and Performance Cluster Listing**

The table shows states that are served by each performance cluster. Some states are served by multiple performance clusters.

<b>Capital Metro Area</b>		<b>Northeast Area</b>		<b>Southwest Area</b>	
Baltimore	MD	Albany	NY	Albuquerque	AZ, NM, TX
Capital Metro	DC, MD	Boston	MA	Arkansas	AR
Northern Virginia	VA	Connecticut	CT	Dallas	TX
Richmond	VA	Maine	ME	Fort Worth	OK, TX
<b>Eastern Area</b>		Massachusetts	MA	Houston	TX
Appalachian	VA, WV	New Hampshire/Vermont	NH, VT	Louisiana	LA
Central Pennsylvania	PA	SE New England	MA, RI	Oklahoma	OK
Cincinnati	IN, KY, OH	Western New York	NY	Rio Grande	OK, TX
Columbus	OH	<b>Pacific Area</b>		<b>Western Area</b>	
Erie	PA	Arizona	AZ	Alaska	AK
Greater S. Carolina	SC	Bay-Valley	CA	Big Sky	MT
Greensboro	NC	Honolulu	HI	Central Plains	IA, MO, NE
Kentuckiana	IN, KY	Los Angeles	CA	Colorado/Wyoming	CO, WY
Mid-Carolina	NC, SC	Nevada-Sierra	CA, NV	Dakotas	MN, ND, SD
Northern Ohio	OH	Sacramento	CA	Hawkeye	IA, IL
Philadelphia	PA	San Diego	CA	Mid-America	KS, MO
Pittsburgh	PA, WV	San Francisco	CA	Northland	MN, WI
South Jersey	DE, NJ	Santa Ana	CA	Portland	OR
<b>Great Lakes Area</b>		Van Nuys	CA	Salt Lake	UT
Central Illinois	IL	<b>Southeast Area</b>		Seattle	WA
Chicago	IL	Alabama	AL	Spokane	ID, WA
Detroit	MI	Atlanta	GA, MS		
Gateway	IL, MO	Central Florida	FL		
Greater Indiana	IN	Mississippi	AL, MS		
Greater Michigan	MI	North Florida	FL		
Lakeland	MI, WI	South Florida	FL		
Northern Illinois	IL	South Georgia	GA, MS, SC		
Southeast Michigan	MI	Suncoast	FL		
<b>New York Metro Area</b>		Tennessee	TN		
Caribbean	PR, VI				
Central New Jersey	NJ				
Long Island	NY				
New York	NY				
Northern New Jersey	NJ				
Triboro	NY				
Westchester	NY				

## B. The Workforce

### 1. Opportunity

#### A. ATTRACTING THE RIGHT APPLICANTS FOR THE RIGHT JOBS

The Postal Service has placed a renewed emphasis on customer focus, attitude, and teamwork in the hiring process. To support this emphasis, extensive research was conducted and a new selection tool for entry-level hiring was implemented in 2005. The system is designed to be a thorough, fair assessment of the job-related skills and abilities that will assist the Postal Service in achieving success today and into the future. The influence of technological improvements and increasing competition has and will continue to change the demands placed on our workforce. These changes have highlighted the need for a different set of skills and abilities. In an increasingly competitive environment, customer service has become even more of a critical factor in determining whether the public will identify the Postal Service as the service provider of choice.

#### B. EMPLOYMENT OPPORTUNITY ENHANCEMENTS

In 2005 more than 56 thousand reassignment requests from 22,700 employees were submitted through eReassign. From this number, more than 4,500 career bargaining unit employees have been successfully transferred. Approximately 20 percent of bargaining unit vacancies were filled through eReassign. In 2006 eReassign will be enhanced to automate the Priority Voluntary Transfer provision in the American Postal Worker's Union (APWU) contract extension.

During 2005 the Postal Service continued efforts to highlight the importance of careful, complete suitability screening of applicants and to assist field offices in pre-employment screening efforts. The process for obtaining records had varied by location, with most offices manually requesting local records. The capacity for electronic collection of criminal and motor vehicle records is currently being deployed nationally. Turnaround time is now reduced, accuracy is enhanced, and compliance with screening requirements has improved.

New Internet-based training was implemented to provide a hands-on multimedia learning experience for employees responsible for interviewing applicants for entry-level positions. The training emphasizes gathering information from the applicant to verify suitability for employment and determining whether the applicant is a good fit for the job.

#### C. TECHNICAL AND CRAFT EDUCATION

The National Center for Employee Development (NCED), a state-of-the-art training facility in Norman, Oklahoma, supports Postal Service efforts to manage and maintain postal systems; upgrade letter, flats and parcels processing; deploy

Postal Automated Redirection System Phase II; upgrade the networking infrastructure; and deploy new vehicles. In 2005 NCED significantly expanded in-depth campus programs, field-site delivery, and e-learning courses. It provided 285 courses in 2,865 course offerings to 175 thousand people – more than twice the students served the previous year. NCED satellite and audio distance learning networks again delivered Postal Service training and information broadcasts. More than 740 thousand students received distance learning in their home offices. Core NCED programs provided business and employee education on management and maintenance of automation systems, customer service equipment, facilities, and vehicles. Other courses include business mail management, information technology, network supervision, safety and environmental compliance, and administrative topics.

NCED revenues exceeded expenses for the fifth straight year. Non-postal conferences and client training of business mailers held on the NCED site generated more than \$2.2 million.

The Postal Service also revised national training programs on Orientation for New Employees and Standardized Skills for Letter Carriers. The Orientation for New Employees program, which launched September 1, features a more positive and targeted message to the new workforce. The 3-day orientation presents an interactive curriculum in which new employees have an opportunity to tour a major postal facility, engage in a full day of safety training, and participate in break-out sessions with representatives from various crafts. This innovative program includes practical job aids to help new carriers succeed with a strong orientation that reinforces our values while at the same time providing details on how to do the job. It was developed using the "day-in-the-life" framework successfully used for rural carrier training, and builds on best practices and national initiatives.

#### D. MANAGEMENT TRAINING

New training for human resource (HR) managers was implemented with 118 participants completing various parts of the program. This course addresses the strategic role HR managers must play in developing people and meeting aggressive goals. *Leadership Effectiveness for Safety Managers* was also piloted and delivered, with more than 60 participants. The course covers the role of the district safety manager, including relationships with operations and other functions. It emphasizes the management of priorities, delegation of responsibilities, and staff development.

The Advanced Leadership Program (ALP) has been the Postal Service's premier leadership development initiative since 1998. It targets successful mid-level managers who demonstrate high potential to assume greater responsibility. The ALP's content is aligned with the Postal Service's Executive Competency Model. A total of 1,432 participants completed the program through November 2005.

# Chapter 1

## Compliance with Statutory Policies

### E. TRAINING AND TECHNOLOGY

The Postal Service continues to provide eLearning to improve employee access to courses. Today, access to more than 300 courses is available to employees nationwide. The Postal Service contracts for off-the-shelf business programming to give training to all employees at their offices through the use of the Postal Satellite Training Network. Approximately 200 courses cover leadership, diversity, safety, customer service, and general business content. In 2005 enrollment for classes exceeded 450 thousand.

### F. INTERN PROGRAMS

Approximately 2,600 Postal Service and non-Postal Service candidates applied to the management intern recruitment program in 2005. Currently, there are 63 active management interns in various stages of the program. Twenty-seven completed the 24-month program in May 2005, and in October an additional ten were outplaced into mid-level field operations positions, including several into the new Manager of Distribution Operations Trainee (EAS-21) position.

The Postal Service continued recruiting for additional professional specialist intern (PSI) positions in 2005. During this period three new professional specialist trainees (PSTs) were hired. There are currently seven PSIs in various stages of development. The Professional Specialist Trainee/Industrial Engineer (PSTIE) training program outplaced a total of 25 industrial engineer trainees to field industrial engineer (EAS-19) positions in July 2005. There are currently 49 active PSTIEs in various stages of development. This program exposes engineers to every facet of postal operations, preparing them to maximize the efficiency of the processing, distribution, and delivery of mail.

### G. WILLIAM F. BOLGER CENTER FOR LEADERSHIP DEVELOPMENT

The William F. Bolger Center for Leadership Development serves as a principal postal training facility. Approximately 96,387 persons used the center in 2005, including 55,310 Postal Service employees who attended one or more management and leadership courses or meetings. The center continues to expand its postal training programs to promote quality and performance excellence. The facility also now serves as an annex to the National Postal Museum, part of the Smithsonian Institution.

The Bolger Center Media Unit produced programming for postal managers in Human Resources, Diversity Development, Engineering, Statistical Design, Finance, Inspection Service, Marketing, and Law. The Media Unit continued to partner with Public Affairs and Communications' USPS-TV to broadcast *COO Update*, a bi-monthly program with the Deputy Postmaster General and Chief Operating Officer, and *MarketPlace*, a program with the Chief Marketing

Officer that focuses on products, services, and revenue generation efforts. The Media Unit also created 32 video productions, 13 of which won prestigious *Videographer*, *Telly*, and *Communicator* awards for production excellence.

### H. CORPORATE SUCCESSION PLANNING

Corporate Succession Planning is an automated process to identify, develop, and maintain a pool of well-prepared successors to executive assignments. It operates on a 2-year cycle, during which employees identified as potential successors develop and pursue targeted individual development plans to strengthen their capabilities and better prepare them to assume executive level assignments. In 2005 the Postal Service launched the second open season for employees to apply for succession tools. For this cycle enhancements were made to help applicants make more informed decisions to target desired pools. The Postal Service also launched a comprehensive communications and training campaign to promote interest in the process.

### I. POSTAL CAREER EXECUTIVE SERVICE

There were approximately 790 managers in the Postal Career Executive Service (PCES) at the close of 2005, including 39 officers. During 2005 approximately 60 newly-appointed executives participated in an Executive Orientation, which started in 2004. The orientation training program allows participants to hear from numerous officers, including the Postmaster General, about the various roles, responsibilities, and strategic alignment of each of the major functional groups at Headquarters. The focus is for new executives to understand what is expected of them and how their own functional areas integrate with others into the overall strategic vision of the Postal Service.

## 2. Diversity

### A. GENERAL

The Postal Service is committed to the creation of a customer-focused, performance-based culture and acknowledges the essential role diversity has in achieving this goal. The Postal Service integrates diversity into all business practices to create and maintain an environment where employees have the opportunity to contribute ideas, seek challenges, and assume leadership roles. To accomplish this, the Postal Service is focusing on four areas:

- Supporting initiatives that provide development opportunities, recruit needed skills, retain the existing talent base, and prepare for the succession of leadership.
- Promoting performance by enhancing the ability of all employees to achieve their maximum potential.

- Strengthening customer and community relations.
- Fostering an environment that values an inclusive workplace and encourages diversity.

#### B. NATIONAL DIVERSITY RECOGNITION PROGRAM

Since 1996 the Postal Service National Awards Program for Diversity Achievement has recognized the contributions and outstanding achievements of individuals and teams that have encouraged and promoted diversity. It is the largest peer recognition program in the Postal Service and serves as an important vehicle for delivering the diversity message. Awards are given in six categories: Individual, Leadership, Team, Altruism, Mentoring, and the Dot Sharpe Lifetime Achievement Award.

In 2005 the National Awards Program for Diversity Achievement experienced an 80 percent increase in participation compared with 2004. This year's program recognized 35 employees, bringing the total number of employees acknowledged since its inception to 329.

#### 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 2005 the Postal Service's career workforce included 42,329 employees with reported disabilities.

In 2005 the Postal Service launched Phase 1 deployment of its Video Relay Service (VRS) and Video Remote Interpreting (VRI) systems at plants with the highest concentration of deaf and hard-of-hearing employees. The VRS is the high technology version of TDD/TTY service and is recommended for one-on-one communication for deaf and hard-of-hearing individuals. The VRI is a Web-based service that can be viewed on a large screen TV via an Internet connection. VRI service is available 24 hours a day.

#### D. VETERANS EMPLOYMENT

The Postal Service is one of the largest employers of veterans and disabled veterans in the nation. In 2005 the Postal Service employed 187,144 veterans. Of this group, 63,456 received injuries while in uniform and, of that number, 16,859 were rated at 30 percent or more disabled. The Postal Service has long established processes for recruitment, advancement, and monitoring of disabled employees.

#### E. AFFIRMATIVE EMPLOYMENT PROGRAM

The Postal Service's goals for its Affirmative Employment Programs are centered on compliance with the U.S. Equal Employment Opportunity Commission (EEOC) Management Directive 715 (MD-715). This directive, which sets forth reporting requirements for all federal agencies, is designed to better address evolving trends in the federal workplace. Rather than having agencies focus solely on the participation rates of minorities, women, and persons with disabilities, the new directive calls for the identification and elimination of workplace policies, practices, procedures, and conditions that prevent equal employment opportunity.

MD-715 requires all agencies to meet six essential elements of a model Equal Employment Opportunity (EEO) Program. During 2005 the Postal Service established a cross-functional taskforce whose purpose is to monitor and implement MD-715. The Postal Service submitted the new Annual EEO Status Report and trained all area EEO managers and diversity professionals on the MD-715 in conjunction with the Equal Employment Opportunity Commission.

##### 1. HISPANIC PROGRAM

The Postal Service facilitated the exchange of best practices and ensured implementation of Hispanic Program guidelines. The program included a national leadership training symposium participation in Hispanic outreach conferences and events. The Hispanic Program Web page was enhanced to include the *Hispanic Program Recruitment Toolkit*, which provides employees and recruitment staff with a menu of recruitment tools and resources, and *Spanish Language Tools*, which provides employees with resources to assist Spanish speaking customers with information about Postal Service products and services.

##### 2. NATIONAL WOMEN'S PROGRAM

The Postal Service celebrated the 30th anniversary of its Women's Program, dedicated to providing employment and developmental opportunities to women. Profiles in Diversity Journal featured an article, "Delivering Diversity for Over 30 Years," which highlighted how the program provided developmental opportunities for women who today comprise 32 percent of mid-level managers, and 23 percent of executives. In 2005 the National Women's Web page made its debut, offering users an array of information about the Women's Program from its history to current stories about women making news in the Postal Service.

##### 3. SPECIAL EMPHASIS PROGRAM

The Special Emphasis Program helps ensure that all employees are fully utilized in the Postal Service workforce and have an equal opportunity to compete in every aspect of employment, including but not limited to recruitment, hiring,



retention, training, career development, and promotions. As part of this program, during 2005 the Postal Service sponsored and participated in numerous conferences focused on equal opportunity, including conventions of the National Association for the Advancement of Colored People, the Urban League, the Organization of Chinese Americans, the African-American Postal League United for Success, and the Asian Pacific American Federal Career Advancement Summit. Additionally, special events were held to commemorate Black History, Women's History, Hispanic Heritage, Asian Pacific Heritage, and American Indian Heritage Months.

### 3. Compensation and Benefits

#### A. PAY COMPARABILITY

##### 1. BARGAINING UNIT EMPLOYEES' PAY AND BENEFITS

The average annual pay and benefits for career bargaining unit employees was \$62,635 this year, excluding corporate-wide expenses which cannot be attributed to individual employees.

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 exceeding private sector levels.

##### 2. NONBARGAINING UNIT EMPLOYEES' PAY AND BENEFITS

Pay for supervisors, postmasters, and other nonbargaining employees provides an adequate and reasonable differential between first-line supervisors and bargaining-unit clerks and carriers, and meets or exceeds comparability standards.

In 2005 nonbargaining-unit employees participated in the second year of Pay-for-Performance (PFP). PFP provides for meaningful distinctions in performance ratings based on objective indicators of performance. This program continues our 10-year history of providing market-based, performance-driven pay for these employees, and is further discussed in the "Pay-for-Performance" section below.

##### 3. EXECUTIVE PAY AND BENEFITS

Due to the limit imposed on PCES salaries by the Postal Reorganization Act, pay and benefits for many postal officers and executives do not meet comparability standards. However, within these statutory salary limitations, the Postal Service continues to provide performance-driven pay actions in support of its goal to enhance the performance-based culture.

#### 4. PAY-FOR-PERFORMANCE

All phases of the Pay-for-Performance merit program became fully automated in the Performance Evaluation System. More than 77 thousand EAS and PCES employees now participate. PFP enables employees to concentrate on achievements within their control and based on their line of sight in the organization. Employees learn at the beginning of the evaluation period where priorities lie, what is expected of them, and how results impact the organization. PFP introduces a heightened awareness of performance distinctions, and individuals are recognized for the contributions they make to unit and corporate performance. Automatic or across-the-board pay increases have been eliminated for all executives and nonbargaining employees.

Employees are evaluated on unit and corporate performance indicators as well as individual performance objectives. The unit and corporate performance indicators are established and measured in the National Performance Assessment (NPA) system, and are aligned to improve customer service, generate revenue, manage costs, and enhance a performance-based culture. Individual core requirements provide a mechanism for employees to identify their personal contributions to unit and corporate success. When determining core requirements, employees meet with their evaluator to discuss and define specific target outcomes. The Postal Service Intranet serves as the key tool for communicating and implementing Pay-for-Performance and reinforces the Postal Service's commitment to provide specific and tangible feedback on individual performance toward established targets. The system also calculates end-of-year ratings based on achievements against targets.

#### 5. RETIREMENT SYSTEMS

The Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS) exceed the private sector comparability standard, but are required benefits under the Postal Reorganization Act. Reasons why these plans exceed private sector levels include the pension entitlement formula, full benefits being available as early as age 55, and full or nearly full indexing of pension benefits to inflation.

#### 6. FAIR LABOR STANDARDS ACT

In 2004 the Postal Service conducted a comprehensive review of the overtime status of its exempt personnel under the guidelines of the Fair Labor Standards Act (FLSA). New regulations issued by the Department of Labor required that a review be conducted of more than 4 thousand positions. As a result of this comprehensive review, the Postal Service ensured it was in compliance with the new regulations. During 2005 the Postal Service continued to be meet compliance requirements for all FLSA guidelines.

## B. LEAVE PROGRAMS

Postal Service employees are provided both annual and sick leave at the same rates as other federal sector employees. However, Postal Service employees have a higher annual leave carryover limit. Earned annual leave may be donated to other career or transitional employees who have exhausted their own leave due to serious health conditions, and postal employees donated more than 196,631 hours of annual leave in 2005.

Postal Service career nonbargaining-unit employees and some bargaining-unit employees may participate in a leave exchange program, which allows a portion of annual leave that would otherwise be earned in the following year to be exchanged for cash. In 2005 approximately 22,780 employees participated in the leave exchange program.

Under the Family and Medical Leave Act eligible employees may take up to 12 weeks off from work for covered conditions. 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. The Postal Service allows the use of 80 hours of accrued sick leave for dependent care under a policy applicable to all career employees.

## C. HEALTH INSURANCE

During 2005 health care contributions, including Medicare taxes for current employees, totaled \$5.1 billion, 9.46 percent of the Postal Service's total pay and benefits. The Postal Service continued to pay most of the premium cost of employee health benefit coverage. When career employees enroll in Federal Employee Health Benefits, their share of health benefit premium contributions are automatically made with pretax payroll deductions.

Under the Omnibus Budget Reconciliation Act of 1990, the Postal Service is required to fund a share of the annuitants' Federal Employee Health Benefit premiums. The cost of funding health care benefits for postal annuitants and their survivors in 2005 was almost \$1.5 billion. The Postal Service is the only federal agency to directly fund retiree health benefits.

## 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 2005 the Postal Service cost for employee life insurance was \$196 million, and the cost of funding life insurance for postal annuitants and their survivors was \$11 million.

## E. RETIREMENT SYSTEMS

Postal Service career employees, like federal career employees, are covered by one of three retirement systems administered by the Office of Personnel Management. At the end of 2005 there were 704,716 career postal employees covered by federal retirement programs. Of this total, 524,118 employees (74 percent) were covered by the Federal Employees' Retirement System (FERS); 171,958 employees (25 percent) were covered by the Civil Service Retirement System (CSRS), and 8,640 employees (1 percent) were covered by CSRS Offset. Postal Service career employees make retirement contributions to the Civil Service Retirement and Disability Fund. In 2005 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). The Postal Service is the only agency to fully fund the costs of its CSRS pension obligations.

## 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. At the end of 2005, 411,633 FERS employees and 105,131 CSRS and CSRS Offset employees participated in the TSP. In addition, during 2005, the Postal Service administered the TSP Catch-Up provision for eligible TSP participants age 50 and older. This program allowed an additional \$4,000 of tax deferred basic pay to be contributed to the TSP. In 2005 there were 27 thousand FERS employees and 27 thousand CSRS and CSRS Offset employees who participated in the TSP Catch-Up program.

## 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 2005, 81,069 employees were enrolled in health care FSAs (a 12.4 percent increase from 2004), with an average annual contribution of \$1,747. At the end of 2005, 5,986 employees were enrolled in dependent care FSAs (a 9.8 percent increase from 2004), with an average annual contribution of \$2,463. Employees experience tax savings which vary according to the individual's contribution amounts and marginal tax rates.

## 4. Environment

### A. VOE SURVEY

Every postal quarter, one-fourth of the career employee population receives the Postal Service's Voice of the

# Chapter 1

## Compliance with Statutory Policies

Employee (VOE) survey at their work locations. Participation is voluntary. Employees are given time on-the-clock to complete the surveys and seal them in postage-paid envelopes that are mailed to the contractor for data analysis and quarterly reporting. Six questions have been identified as key indicators of workplace environment factors that can have an impact on employee performance and thus affect business outcomes. Analyzing survey results helps identify organizational issues in order to plan improvement strategies. In 2005 the Postal Service continued to achieve record high national response rates and survey index scores. The national response rate was 66 percent, and the national index score was 63.7 percent favorable responses, 1.6 percentage points higher than the 2004 index score of 62.1.

### B. EMPLOYEE ASSISTANCE PROGRAM/WORKPLACE ENVIRONMENT IMPROVEMENT

The Postal Service Employee Assistance Program (EAP) provides free, voluntary, confidential, in-person counseling services to employees and family members from masters-degreed, licensed, professional counselors. Counselors are available 24 hours a day, 7 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.

EAP also 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, such as defusing and grief groups after a critical incident (e.g., suicide, hurricane, armed robbery, and accidental death).

In 2005, 54,300 employees and family members received counseling, information, and consultation from EAP. Of the more than 22 thousand employees receiving counseling, 46.2 percent reported some type of work problem that affected their work performance. EAP staff responded to 339 critical incidents and provided assistance to more than 13 thousand employees after these incidents. In the aftermath of the hurricanes in the fall of 2004, EAP staff visited 340 affected facilities to provide support. Health and wellness seminars/training opportunities on topics ranging from stress management to elder care to substance abuse were provided to more than 37,500 employees.

### C. VIOLENCE PREVENTION AND CRISIS MANAGEMENT

The Workplace Environment Advisory Committee includes representatives of employee unions, management associations, labor relations, and human resources. This group, working closely with the Postal Inspection Service

and EAP/Workplace Environment Improvement (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. 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 to ensure prompt response, swift resolution, and maximum safety of Postal Service employees.

### D. NATIONAL SEXUAL HARASSMENT PREVENTION

Defining appropriate behavior and establishing it as a norm in the workplace is a top priority. The National Workplace Harassment Prevention Program uses awareness and training activities to prevent workplace harassment at all levels of the organization.

In 2005 the Postal Service updated Publication 552, *Manager's Guide to Understanding Sexual Harassment*, to include a revised Initial Management Inquiry Process and distributed it to all nonbargaining employees. To reinforce the message of Publication 552, the Postal Service developed a presentation for managers entitled *What It Is and What Managers Must Do*.

### E. DEPENDENT CARE

The Postal Service and the American Postal Workers Union (APWU) jointly maintained a contract with 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 offering a variety of options to help balance work and home life.

### F. COMBINED FEDERAL CAMPAIGN

The Postal Service joins other federal agencies in the Combined Federal Campaign drive each fall. In 2005 Postal Service employees nationwide pledged a total of \$38,728,270 to the charities of their choice.

### G. POSTAL EMPLOYEES RELIEF FUND

During 2005 the Postal Employees Relief Fund (PERF) provided valuable support to postal employees who were affected by the devastation caused by the series of hurricanes in the Southeast in Fall 2004. PERF, working through a network of local subcommittees in the affected areas, was able to provide grants to the majority of these employees in an effort to help them rebuild their homes and their lives.

The Postal Employees Relief Fund (PERF) is a humanitarian effort administered jointly by the Postal Service and each

of the unions and management associations, supported financially by Postal Service employees primarily through the payroll deduction program of the Combined Federal Campaign. The fund was started in 1990 in response to the many employees in the Southeast U.S. and Caribbean who had their homes and property damaged by Hurricane Hugo. Since then, more than 3 thousand employees affected by subsequent natural disasters including floods, hurricanes, tornadoes, earthquakes and fires have been the recipients of grants totaling over \$5 million. PERF will continue to serve an instrumental role in the recovery for employees who live and work in the parts of Louisiana, Mississippi, Alabama, Texas, and Florida that were declared disaster areas as a result of Hurricanes Katrina and Rita.

#### H. SAFETY

In 2005 the Postal Service continued to experience significant improvement in its safety program. Accident reduction plans targeted the most serious and prevalent accident causes. The Postal Service issued guidance and direction to employees on a wide variety of safety and health issues. Through mandatory safety talks, videos, and publications, employees were apprised of how to avoid injuries and illnesses. The award winning *Safety Depends on Me* video campaign, part of the Postal Service's overall employee safety and health communication program, provides employees with safety and health information.

The Occupational Safety and Health Administration (OSHA) 2005 injury and illness frequency rate for the Postal Service was 5.74 per 100 employees. This is down 13 percent from last year and equates to 5,748 fewer OSHA injuries and illnesses. In the past four years the Postal Service has reduced the total number of OSHA injuries and illnesses by 29,110, a 41 percent reduction. The Postal Service motor vehicle accident frequency rate was 10.3 per million miles, down 1.26 percent from last year. In the past 4 years the Postal Service has reduced its total number of motor vehicle accidents by 2,559, a 9.9 percent reduction.

The Postal Service continued involvement with emergency preparedness improvements, as well as with safety requirements mandated by the Department of Homeland Security (DHS).

#### I. VOLUNTARY PROTECTION PROGRAMS

The Postal Service continues to partner with OSHA to implement its prestigious Voluntary Protection Program (VPP) in Postal Service facilities. VPP was created to recognize and encourage excellence in occupational safety and health protection. Participation requires comprehensive management systems with employees actively involved in anticipating, evaluating, and controlling the potential safety and health hazards. OSHA recognizes only those facilities that have implemented the best safety and health programs in industry.

To date the Postal Service has 49 worksites approved in VPP, 13 onsite evaluations scheduled, and 20 applications in review.

VPP is being implemented through the national, area, and local Joint Labor-Management Safety Committees. The decision to enter into the VPP process is a joint decision made between the unions and the Postal Service at the local level. A key benefit is improved employee relations that result from the cooperative involvement of management, OSHA, and the unions working together in its implementation.

#### J. ERGONOMIC RISK REDUCTION PROCESS

The Ergonomic Risk Reduction Process (ERRP) is designed to reduce both the number and severity of musculoskeletal disorders, build labor/management teams with ergonomic skill, and cultivate partnerships to identify and control ergonomic risk, among the Postal Service, OSHA, the National Postal Mail Handlers Union (NPMHU), the American Postal Workers Union (APWU), and the National Association of Letter Carriers (NALC). As of September 2005, 67,587 postal employees at 93 facilities have received training in ERRP since inception in 2003. In 2005 the ERRP teams analyzed 4,665 tasks, resolved 3,276 tasks, and implemented 2,161 fixes locally. ERRP is scheduled to be implemented in 27 sites in 2006, 32 in 2007, and 31 in 2008.

Customer Service employees have also requested an ergonomic process to assist in the identification and reduction of musculoskeletal disorders. The organization of ERRP for Customer Service differs from the plants since CS ERRP is not confined to a single building. A model for CS ERRP was developed and successfully tested in 2005.

#### K. INJURY COMPENSATION

In 2005 the Postal Service had a decrease in workers' compensation chargeback from Department of Labor's Office of Workers' Compensation Programs (OWCP) of approximately \$12.0 million below 2004. This reduced the total cash payout to \$885.4 million. This total includes all Postal Service, Post Office Department, and administrative costs for the chargeback year.

The Postal Service continues to work closely with the OWCP to place injured employees who cannot be accommodated within the Postal Service into private sector assignments. In 2005 the program resulted in the outplacement, retirement, or reduction in compensation payments for 217 employees. Since inception of the Outplacement Rehabilitation Process, the Postal Service has reduced the annual compensation cost by over \$11.5 million.

In continuing efforts to reduce workers' compensation medical costs, two new initiatives have been identified for implementation. Currently under development is the Pharmacy Card Program, which is designed for employees

# Chapter 1

## Compliance with Statutory Policies

with work-related injuries to receive pharmacy discounts. Working in collaboration with OWCP and the Postal Service's Office of Inspector General, the Duplicate Medical Bill Review project was initially launched in June to one of the OWCP districts to identify and recover medical overpayments made to providers. This project will be rolled out to all of the 12 OWCP district offices by early 2006. The Postal Service also has contractual agreements with several corporations that have resulted in \$4 million in direct savings and significant cost avoidance to help reduce workers' compensation costs.

OWCP credits monies recovered from pursuit of third party claims and overpayments to the Postal Service chargeback. Ongoing efforts with the Credit Recovery program attained in 2005 totaled \$41 million which surpassed the recovery goal of \$29 million.

### L. WORKERS' COMPENSATION FRAUD

Once postal inspectors or the Office of Inspector General (OIG) identify fraud in the Workers' Compensation Program, they then seek a resolution. The resolution may be an arrest, removal from duty, job suspension, withdrawal of a claim by the claimant, or the reduction or discontinuance of an employee's compensation benefits (as determined by the Department of Labor). Postal inspectors and the OIG also search for and identify fraud during the period that injured workers are receiving continuation of pay (COP) from the Postal Service before progressing to the Department of Labor's compensation rolls.

In 2005 investigations by the Inspection Service and the Office of the Inspector General identified 969 individuals alleged to have defrauded the workers' compensation program, resulting in long term cost avoidance and COP savings of \$259 million. The Inspection Service and Office of the Inspector General for the Postal Service partnered on 134 of these identifications, which resulted in more than \$17.6 million in avoided Postal Service compensation costs.

Statistics of these investigations are listed in Table 1-3.

**Table 1-3 Workers' Compensation Fraud**

Front-end schemes resolved	616
Front-end cost savings	\$33,054,634
Long-term schemes resolved	353
Long-term cost avoidance	\$226,201,383
Arrests	47
Total Number of Cases	969
<b>Total</b>	<b>\$259,256,017</b>

Notes: "Front-end" refers to fraudulent workers' compensation claims which terminate as a result of Inspection Service investigation prior to involvement by the Office of Personnel Management. Long-term cost avoidance is calculated based on an actuarial lifetime.

### M. HOMELAND SECURITY/EMERGENCY PREPAREDNESS

#### 1. BIOHAZARD DETECTION SYSTEM AND RELATED PROGRAMS

The main purpose of the Biohazard Detection System (BDS) is to provide an early warning of a potential threat of a biohazard, allowing an immediate evacuation and containment response and reducing the risk of exposure to Postal Service employees and the general public.

In support of BDS deployment, the Postal Service conducted 275 training sessions for more than 6,500 employees. Incident Management Training was provided to 1,500 employees to better prepare them to respond to all categories of incidents. Additionally, 200 managers were trained in the use of the Postal Emergency Management System, an important tool that facilitates communication in all phases of emergency management. To date 216 postal inspectors have been certified and equipped as Hazardous Waste Operations and Emergency Response technicians able to respond to and conduct BDS crime-scene investigations. Familiarity training was made available to all postal inspectors on chemical, biological, radiological, nuclear, and explosive response.

The Postal Service continues to develop relationships with each state's Office of Emergency Management and local first responders. An aggressive outreach campaign was conducted to help federal, state, and local emergency responders better understand the Postal Service and its evolving role in managing the consequences associated with acts of terrorism, natural or manmade, biological and chemical disasters. Currently, Postal Service groups and other law enforcement and intelligence agencies serve on a multiphase project to assess potential terrorist acts that employ chemical, biological, radiological, or explosives threats against the Postal Service.

The Postal Service also participated in national emergency communications tests as part of the Continuity of Operations Plan to ensure that viable communications will exist between the Postal Service and other federal agencies in the event of an emergency. During 2005, 80 field test screening units, 37 response vehicles, and 18 mobile command centers were deployed throughout the country to enhance response time. Several of the response vehicles and mobile command centers have been integral to response efforts for this year's hurricanes.

Currently, postal inspectors serve as liaisons with three federal agencies (CIA, FBI, and DHS) to collect intelligence on threats that could affect the Postal Service, and enable other agencies to work with the Postal Service in developing and analyzing threat information as part of a comprehensive, risk-management program. The Inspection Service completed a comprehensive threat and vulnerability risk assessment.

## 2. HEADQUARTERS WATCH DESK

The Postal Service's Headquarters Watch desk became fully operational this year. The watch desk receives information about critical events that may have national implications and require immediate action. When such an event occurs, local Inspection Service personnel, other law enforcement agencies, and DHS immediately contact the Headquarters Watch Desk to report pertinent information which is disseminated as necessary to Postal Service officials for appropriate action. The Chief Postal Inspector and the Deputy Chief Inspector of Headquarters operations will determine notification requirements for the Postmaster General, Deputy Postmaster General and Chief Operating Officer, members of the Board of Governors, Inspector General, and any other executive officers. When appropriate, the Deputy Chief Inspector of Headquarters operations activates the Command Center to coordinate the incident, as was the case during the response to Hurricanes Katrina and Rita.

## 5. Planning

### A. ENTERPRISE RESOURCE MANAGEMENT SYSTEM

The Postal Service's success will depend to a great degree on its ability to use workhours efficiently and adjust staffing relative to changing workload. The enterprise Resource Management System, which manages employee attendance at more than 90 field sites, is a key tool used to assure operations are adequately and efficiently staffed. In 2005 the Postal Service completed national deployment of Interactive Voice Response technology and provided updated enhancements to the software application to improve complement management, cost effectiveness in operational efficiency, and automated, system-generated reports to all management levels. The key components deployed in 2005 are:

- Enhanced Leave Request Application TTY script for the deaf and hearing impaired employees.
- National implementation of the fulfillment center to mail out required information for new Family and Medical Leave Act (FMLA) cases. New features on enterprise Resource Management System (eRMS) screens to provide tracking information on FMLA direct mail pieces.
- Ongoing (eRMS) software enhancements to provide more user-friendly features.
- New, automated reports to management that provide more concise data and enhanced accountability for managers' review on a quarterly basis.
- Expanded distribution of the successful Sick Leave Awareness Campaign to include poster kits to smaller

offices, Headquarters offices, and the Inspection Service. The sick leave videos were recipients of two gold Aurora and one silver Telly awards.

- Integrated link to Time and Attendance Collection System (TACS) with eRMS, which provides real-time data to manage the daily business operations.

Several eRMS integration efforts with eReassign, the Employee Ideas Program, and the Enterprise Injury Compensation Performance Analysis System are still in progress to provide users with an extensive and robust resource tool in 2006.

### B. FAMILY AND MEDICAL LEAVE ACT

In order to maintain continuity and provide effective administration of Family and Medical Leave Act (FMLA) cases, the Postal Service authorized FMLA coordinator positions at the performance cluster level to offer subject matter expertise to employees. An ongoing, comprehensive, 3-day training program is provided as needed to newly appointed FMLA coordinators. To increase operational efficiency and reduce costs, a fulfillment center was established that eliminates manual transactions normally performed by FMLA coordinators and standardizes the mailing of FMLA packets.

### C. HUMAN CAPITAL ENTERPRISE/HR SHARED SERVICES

The Human Capital Enterprise/HR Shared Services (HCE/HRSS) is tasked with the redesign of HR business processes, development of new technology to support those processes, and implementation of a Human Resources Shared Services Center to complete basic transactions. These activities will reduce costs, improve efficiency, and provide high quality service to employees.

In 2005 HCE/HRSS partnered with Headquarters managers and field practitioners to continue implementation of PostalPEOPLE, a project that transforms the Human Resources function by streamlining, standardizing, and automating outdated technology. When completed, the new environment will be one fully integrated HR system that includes a Shared Service Center and enhanced self-service options. This work is being completed against both legacy and future technology environments. The Human Resources Shared Service Center (HRSSC) was opened in Greensboro, North Carolina, to support newly developed personnel processes. As of October 2005, the first three major process categories (Retirements and Separations, Benefits and Compensation, and EAS Selections) had been validated and transferred to the service center from three performance clusters (Northland, Minnesota; Santa Ana, California; and Triboro, New York). As a result, the HRSSC now serves more than 40 thousand employees.

# Chapter 1

## Compliance with Statutory Policies

Development is well underway to replace the current Postal Service Human Resources legacy systems. In September 2004, the first phase replaced the Organizational Management Staffing System (OMSS), a legacy system that addressed only Executive Administrative Schedule and administrative positions. OMSS was replaced by the first component of the Human Capital Enterprise System (HCES) — Organization Structure and Staffing Management, which serves as the foundation of the HCES. Plans for the reconfiguration of the Human Resources legacy systems are ongoing and by the end of 2006 an additional 29 legacy applications will be replaced.

To support the change, PostalPEOPLE fairs have been hosted in major plants throughout the initial three performance clusters. More than 10 thousand employees attended to learn how to manage their personnel transactions in the new environment.

### 6. Labor Relations

#### A. COLLECTIVE BARGAINING

The Postal Service has nine collective bargaining agreements with seven unions covering approximately 684 thousand career and non-career employees. Negotiations with unions cover a full range of topics involving wages, benefits, and conditions of employment.

In June 2005 the Postal Service and the American Postal Workers Union AFL-CIO, reached a tentative agreement for an additional 1-year extension of the current national agreement, through November 20, 2006. The tentative agreement, ratified and executed September 12, 2005 provides for a 1.6 percent wage increase effective March 18, 2006. Other terms include continuing the cost-of-living allowance and health benefits formula, an increase in the uniform allowance, and upgrades to some selected positions.

There are also ratified and signed agreements to extend on substantially similar terms the collective bargaining agreement of two smaller bargaining units represented by the APWU. The Information Technology and Accounting Service Center (IT/ASC) Agreement covers computer and accounting employees at IT/ASC. The Operating Services Division contract covers maintenance employees primarily at postal Headquarters. Additionally, the collective bargaining agreement covering a small number of employees represented by the International Association of Machinists (IAM) was extended earlier this year through February 2007.

In 2005 the Postal Service and the National Association of Letter Carriers (NALC) jointly developed and delivered contract application training and process support to nearly 180 Postal Service and NALC Step B representatives. Step B representatives are responsible for addressing and resolving

disputes at the local level. This training component was cooperatively developed by the national parties in the belief that continued success in reducing workplace disputes is dependent on continued support and training at the national level.

The Postal Service and APWU continued nationwide training on the Joint Contract Interpretation Manual (JCIM), with a target audience of supervisors and union officials. In 2005 the Postal Service and APWU jointly trained approximately 50 thousand supervisors and union officials. The purpose of the JCIM is to provide guidance to the field on contract application and to reduce grievances.

The Postal Service and National Postal Mail Handlers Union (NPMHU) also continued joint training on their Contract Interpretation Manual. In addition, for the eighth consecutive year, the parties co-hosted an annual Quality of Work Life Conference.

#### B. CONSULTATION WITH MANAGEMENT ASSOCIATIONS

During 2005 a program of consultation was conducted with each of the management organizations representing postmasters, managers, supervisors, and other nonbargaining employees within the Postal Service. These sessions presented an opportunity for the organizations — the National League of Postmasters, the National Association of Postmasters of the United States, and the National Association of Postal Supervisors — to participate directly in the planning, development, and implementation of programs and policies impacting approximately 75 thousand managerial employees. National officers of the three organizations collaborated with postal management in support of this effort. Each management association will continue to take an active role in this process.

In addition to regularly scheduled program consultation, the Postal Service entered into EAS Pay Consultations with all three management associations beginning in June 2005, resulting in a 1-year compensation package that continues the elements of the Pay-for-Performance program through 2006.

#### C. EQUAL EMPLOYMENT OPPORTUNITY

The national Equal Employment Opportunity (EEO) function reorganized and transformed into two components: a service center, National EEO Investigative Services Office (NEEOISO), which manages and processes all EEO complaint investigations, and a field organization through which all EEO field professionals report to Headquarters. This reorganization brings EEO complaint activity directly to the attention of the highest levels of the organization so that issues and barriers to workplace relationships are identified and addressed at a national level. It also strengthens the ability to guarantee accountability in the EEO system and drive the function's performance toward beneficial goals, which include early resolution of workplace disputes, improving workplace

environment issues, and reducing costs associated with formal complaint processing.

NEEOISO's goal is to produce high quality and timely EEO investigations in accordance with Equal Employment Opportunity Commission regulations. The use of private contract investigators helps maintain the required neutrality of the investigative process. In 2005 NEEISO initiated and closed more than 6,900 investigations, thereby eliminating the backlog.

EEO professionals continue to utilize the highly successful REDRESS (Resolve Employment Disputes Reach Equitable Solutions Swiftly) mediation program to help employees and management reach resolution of their disputes. Since implementation of the REDRESS program, formal EEO complaints in the Postal Service have been reduced by 43 percent. At the same time informal complaints fell by 28 percent. Utilization of the Postal Service mediation program has steadily increased. In 2005 employees elected mediation in more than 88 percent of cases eligible for the program. More than 72 percent of those eligible complaints were resolved. REDRESS has consistently maintained more than a 90 percent satisfaction rate from all parties involved in the process.

#### D. COMPLEMENT MANAGEMENT

The Postal Service carefully tracks workforce factors such as attrition in a continuing effort to plan for fluctuations in workforce complement. Supporting this activity is a national planning, tracking, and management system with national standardized procedures and work processes. By standardizing complement management, Postal Service managers can better anticipate needs across functions and facilities and establish plans by installation and function. In 2005 training was completed for all area and performance cluster complement coordinators on standardized processes.

The Postal Service continues to develop new tools to refine workforce planning efforts. The Business Management Guide is a planning tool used to set and adjust budget-based complement metrics. The Web Complement Information System (webCOINS) is a tracking tool in which authorized and on-rolls staffing levels are maintained along with operational field review results. The Field Complement Plan provides functional complement projections for the national, area, and performance cluster levels, and allows operations to track the effectiveness of current and projected complement plans.

#### C. Service to Small or Rural Communities

An important purpose of the Postal Reorganization Act of 1970 was to ensure effective postal services to residents of both urban and rural communities. A change in community postal needs or the loss of suitable facilities may lead to the closing of a Post Office facility or its consolidation into a station, branch, or contract postal unit (CPU). Retail optimization is a

dynamic process that establishes the decision-making criteria for updating the retail network. It takes into account the many ways in which retail services are made available to postal customers. These include counter services at Post Offices and CPUs, stamps-only sales at thousands of commercial retailers and ATMs, self-service through vending and the Automated Postal Centers, online services using *usps.com*, and outgoing mail pickup and other services provided by carriers at customers' homes and places of business.

As changes occur that affect the network, such as a change in operating hours, the Postal Service uses a variety of media to inform the public, mailers, management organizations, labor unions, and employees. Before a Post Office is discontinued or consolidated, however, the Postal Service follows a statutory procedure including customer notice and appeal rights. In practice, few Post Offices are closed or consolidated. In a normal year about 100 of approximately 28 thousand Post Office locations might be closed. Historically, less than ten percent of the decisions to close a Post Office have been appealed to the Postal Rate Commission (PRC), which has remanded less than one percent of the total annual closures to the Postal Service for further consideration.

### D. Postal Cost Apportionment and Postal Ratemaking Developments

#### 1. Postal Rate and Fee Changes Pursuant to Public Law 108–18: Docket No. R2005-1

On April 8, 2005, the Postal Service initiated an omnibus rate case requesting an Opinion and Recommended Decision for moderate across-the-board increases in all postal rates and fees. With limited exceptions, the rates proposed by the Postal Service reflected an across-the-board increase of 5.4 percent applied to existing rates and fees. Included among the proposed rates were a 39-cent rate for 1-ounce First-Class Mail letters, a 24-cent rate for First-Class Mail postcards, and a \$4.05 rate for 1-pound Priority Mail pieces. The Postal Service indicated that it would not implement any new rates recommended by the PRC before January 2006. No classification changes were proposed.

The Postal Service's request arose from the need to fund the financial obligation established by Public Law (P.L.) 108–18, which requires the Postal Service to place approximately \$3.1 billion in an escrow account in 2006. No purpose was established for the escrow funds and the Postal Service was required to classify the escrow as operating expenses.

The Postal Service supported its Request with a wide range of financial, operational, and other studies. The Postmaster General testified that "[t]he Postal Service's decision to seek changes in postal rates and fees at this time represents a policy judgment about the most reasonable, practical



and effective way to meet a currently unavoidable financial obligation in fiscal year 2006.”

Prior to filing its Request, the Postal Service began efforts to obtain a settlement agreement by consulting potential participants. Only one participant other than the Postal Service filed a direct case providing alternative proposals. As of September 2005, 35 of the active parties agreed to support the Postal Service’s proposals; an additional five participants did not oppose the proposals. Only two participants opposed the settlement on general grounds. Two individual participants opposed very specific elements of fees related to two special services.

The PRC issued its Recommended Decision on November 1, 2005. While the PRC did not recommend a 5.4 percent across-the-board increase for all rate-classes, the majority of the recommended rate increases fall within that range. On November 14, 2005, the Postal Service Governors voted to accept the PRC’s Opinion and Recommended Decision, with the new rates effective January 8, 2006.

### **2. Experimental Premium Forwarding Service: Docket No. MC2005-1**

On November 19, 2004, the Postal Service filed a request with the Postal Rate Commission seeking approval of a 2-year, experimental Premium Forwarding Service (PFS). PFS was designed to meet the needs of customers who establish temporary residences and would like their mail sent to them there. PFS sends all of a customer’s mail, generally through a weekly Priority Mail shipment, to a temporary address from 2 weeks up to 1 year. The service was proposed as an experiment to gather information about demand, operations, and the average weight and zone of weekly shipments. An unopposed Stipulation and Agreement settling the case was filed with the PRC. On April 15, 2005, the PRC issued an Opinion and Recommended Decision based on the settlement agreement, which the Governors approved on May 12, 2005. PFS was implemented on August 7, 2005.

### **3. Rate and Service Changes to Implement Functionally Equivalent Negotiated Service Agreement with HSBC North America Holdings Inc.: Docket No. MC2005-2**

On February 23, 2005, the Postal Service filed a request with the PRC seeking an Opinion and Recommended Decision on rate and classification changes designed to implement a negotiated service agreement (NSA) with HSBC North America Holdings Inc. (HSBC). An NSA is a contract between the Postal Service and a customer which provides for rates and classifications that are unique to that customer. This filing was the third case seeking approval of a “functionally equivalent” NSA related to the baseline Capital One NSA.

After the request was filed, five parties intervened. The PRC issued its Opinion and Recommended Decision to the Governors on May 20, and the Governors approved the NSA on June 14. Implementation is scheduled for January 1, 2006.

### **4. Experimental Priority Mail Flat-Rate Box: Docket No. MC2004-2**

On June 3, 2004, the Postal Service filed a request for an Opinion and Recommended Decision on a 2-year experimental classification establishing a Priority Mail flat-rate box rate. Priority Mail users are able to mail items using either of two Postal Service-supplied boxes for a flat-rate, regardless of weight or distance to destination. The flat-rate is \$8.10 as of January 8, 2006.

All but two of the case participants entered into a settlement agreement. The PRC issued an Opinion and Recommended Decision on October 6, 2004, recommending the Postal Service’s proposal. The Board of Governors approved the proposal on October 27, 2004, and the rates and classification were implemented on November 20, 2004.

### **5. Rate and Service Changes to Implement Functionally Equivalent Negotiated Service Agreement with Bank One Corporation: Docket No. MC2004-3**

On June 21, 2004, the Postal Service filed a request with the PRC seeking a Recommendation on rate and classification changes designed to implement a 3-year NSA between the Postal Service and Bank One Corporation (Bank One). The PRC considered the Bank One NSA request under its rules for NSAs which are functionally equivalent or structured similarly to that of an already existing NSA. Volume thresholds and other specifics may be revised to reflect the specific circumstances of the new customer. The Bank One NSA was proposed as functionally equivalent to the baseline NSA with Capital One, previously approved. The PRC issued an Opinion and Recommended Decision on December 17, 2004. On February 16, 2005, the Governors issued their decision, which allowed under protest the recommended rate and fee changes, but returned the Opinion and Recommended Decision to the PRC for reconsideration. Implementation occurred on April 1, 2005.

On May 16, 2005, the Postal Service filed a Memorandum on Reconsideration which included three declarations discussing pertinent factual issues. On August 23, 2005, the PRC issued Order No. 1443 in which it declined to reopen the record to consider the declarations and requested comments on reconsideration based upon the existing record. On September 14, 2005, JP Morgan Chase & Co., a successor company to Bank One, petitioned the PRC to reopen the record.

## **6. Repositionable Notes Market Test: Docket No. MC2004-5**

On July 16, 2004, the Postal Service filed a request for a 1-year market test of Repositionable Notes (RPNs). RPNs are self-adhesive notes affixed to the exterior of letters or flats (large envelopes, catalogs, or magazines). Because RPNs are mechanically applied using air pressure, and have an adhesive strip wider than on notes used in typical office settings, tests have shown that they are unlikely to become detached from the mailpiece during handling. The Postal Service proposed to test RPNs further, after a period of testing and gradual introduction, by permitting their use on all letters and flats. Attachment of RPNs to mailpieces does not appear to cause the Postal Service to incur any additional handling costs. Based on the value of the RPN to senders and recipients, the Postal Service proposed RPN rates of 1.5 cents on Standard Mail and Periodicals and 0.5 cents on First-Class Mail.

The PRC determined that the case should be considered as a provisional service case, rather than a market test. In December 2004 the PRC issued an Opinion and Recommended Decision, which the Governors approved on January 11, 2005. The experiment was implemented on April 3, 2005, with the rates as proposed.

## **7. Complaint of Time-Warner, Inc. et al., Concerning Periodicals Rates: Docket No. C2004-1**

On January 12, 2004, the PRC received a pleading from Time Warner, Inc., and other publishers, styled as a rate complaint. Under 39 U.S.C. 3662, a party can file a complaint with the PRC alleging that a particular rate or postal service does not conform to statutory policies governing the Postal Service. The complainants alleged that the existing Periodicals rates could be improved by adoption of an alternative rate structure. They further alleged that proposed changes would bring Periodicals rates into greater conformity with the policies of the Postal Reorganization Act of 1970. The proposed alternative rate structure was designed to tighten the relationship between the cost-causing characteristics of a publication and the Periodicals rates paid by the publication. The complainants urged the PRC to hold hearings on their complaint and recommend their proposals to the Governors.

The Postal Service responded on February 11, 2004, and opposed the mailers' request for relief on several grounds. First, the Postal Service argued that the mailers did not allege that the existing rates fail to conform to the policies of the act, which, under both the relevant provisions of the PRC's rules and the statutory language of 39 U.S.C. 3662, is a prerequisite for initiation of a rate complaint. Second, the Postal Service argued that the mailers' efforts to challenge a rate structure, which they previously had the opportunity to

challenge in the most recent omnibus rate case, constituted an improper attempt to circumvent the exclusive review provision of 39 U.S.C. 3628. Lastly, the Postal Service noted that even if the filing were treated as a request to initiate a mail classification case without rate consequences, there were ample policy grounds to postpone consideration of the underlying classification issues until a more balanced proposal was available.

On March 26, 2004, the PRC went forward with a proceeding but acknowledged its intent to limit any resulting recommendations to the classification structure, and to refrain from recommending changes in rates. In April the complainants filed four pieces of testimony supporting their proposals. In September 2004, testimony was filed by a number of parties, including the Postal Service, opposing the complainants' specific classification proposals.

On October 21, 2005, the PRC disposed of the complaint. The PRC declined to issue an Opinion and Recommended Decision and found that the existing rate structure for Periodicals does not conflict with statutory policies and requirements. It found, however, that many of the suggestions for changing Periodicals rates embodied in the complaint and testimony had merit. It proposed that the Postal Service evaluate the suggestions in light of the record and propose revised Periodicals rates in the future. The PRC specifically suggested that the Postal Service consider a bifurcated, opt-in rate structure that would allow mailers to take advantage of efficiencies in mailing practices and pay modified rates that were more cost-based. Customers mailing above a predetermined volume threshold would pay the modified rates; mailers below the threshold would pay rates under the current structure, or could elect to pay the modified rates.

## **8. Complaint on Electronic Postmark: Docket No. C2004-2**

On February 25, 2004, a complaint proceeding was filed on the subject of United States Postal Service Electronic Postmark (EPM). The fundamental basis for the complaint was the allegation that the Postal Service is acting unlawfully by offering this purely electronic service without first submitting to the PRC a request for an Opinion and Recommended Decision on classification provisions and rates associated with this service. In its responsive pleadings filed on April 26, 2004, the Postal Service argued that complaint proceedings before the PRC were not intended and are not appropriate to resolve issues as to whether the Postal Service is acting beyond its lawful authority.

The Postal Service moved that the complaint should be dismissed. The Postal Service's motion to dismiss is still pending, because the Postal Service's EPM is clearly not a postal service, and the PRC lacks jurisdiction over nonpostal services such as EPM.

### 9. Complaint on Stamped Stationery: Docket No. C2004-3

On June 24, 2004, a complaint was filed with the PRC concerning stamped stationery issued by the Postal Service on June 23, 2004. The stationery consists of sheets of paper imprinted with indicia that are representations of *The Art of Disney: Friendship* postage stamps. The sheets can be used to write a message and address and, once folded and sealed, can be mailed using First-Class Mail service. The price for 12 sheets is \$14.95, including postage. The complainant believes that the stationery is within jurisdiction asserted by the PRC in the 1970s, similar to stamped envelopes, stamped cards, and aerogrammes. The complainant seeks to initiate a classification proceeding to establish this product within the Domestic Mail Classification Schedule and to have fees established based on recommendations from the PRC.

The Postal Service filed an answer to these specific allegations August 2004, and is preparing a motion to dismiss the proceeding.

### 10. Complaint on Collection Box Removal: Docket No. C2003-1

On November 21, 2002, a complaint was filed with the PRC, alleging that removal of collection boxes had caused a nationwide change in service for which no request for an Advisory Opinion had been sought and such removal had resulted in collection service that was inadequate. The Postal Service filed an answer in December 2002, explaining that, historically, fluctuations in the number of collection boxes were typical, and that, with the exception of boxes removed for concerns of public and employee health and safety, recent box removals were intended to be conducted in accordance with long-established guidelines.

To support its position that removals of collection boxes have not had a material effect on customer service, the Postal Service offered to file Customer Satisfaction Measurement (CSM) scores from customer surveys. Since Postal Service policy is not to disclose such data publicly, the Postal Service requested that the PRC impose protective conditions on the CSM scores that would limit their use to the complaint proceeding.

In July 2003 the PRC denied the request for protective conditions. The Postal Service moved for reconsideration. In August 2003 the Postal Service filed comments on the certified question, noting that similar scores had been subject to protective conditions in the most recent omnibus rate case.

In February 2004 the PRC concluded that it was unwilling to grant the CSM scores in question the same protected status as such material had been afforded in the last omnibus rate case. In response to the PRC's order, the Postal Service

indicated that it would not seek to rely on CSM scores and maintained that sufficient grounds existed, independent of those scores, to warrant dismissal of the complaint. The case is still pending.

### 11. Complaint on First-Class Mail Service Standards: Docket No. C2001-3

On May 19, 2001, a complaint was filed with the PRC, alleging that in 2000 and 2001 the Postal Service implemented changes in 2- and 3-day service standards for First-Class Mail service on a nationwide or substantially nationwide basis without first requesting a PRC Advisory Opinion. 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 (PRA). The Postal Service contended that the service standard changes were part of a more extensive realignment plan previously submitted for PRC 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 PRA. In 2004 final testimony was submitted, and briefing was completed. The case is still pending.

### 12. *LeMay v. United States Postal Service*, No. 05-4001 (W.D. Ark)

A private individual filed a lawsuit in federal district court in Texarkana, Arkansas, seeking class action status, against the Postal Service. In general the plaintiff alleged that the Postal Service failed to provide mailers of Priority Mail with the level of service that these mailers were led to believe they would receive when they paid Priority Mail rates for items weighing less than 13 ounces, and sent to destinations within three zones. The plaintiff raised four counts — three based on theories of contract and one based on state statute. The Postal Service filed a motion to dismiss, in lieu of an answer, and plaintiff opposed the motion. On August 9, 2005, the judge dismissed the complaint, concluding that the plaintiff's claims essentially were about postal services received and/or rates paid, and properly belonged before the PRC, not a federal district court. The plaintiff has filed an appeal to the U.S. Court of Appeals, Eighth Circuit.

### 13. Rulemakings

During 2005 the PRC either initiated or continued several Notice and Comment rulemaking proceedings to consider amendments to its Rules of Practice and Procedure. On January 16, 2004, the PRC proposed to incorporate into its rules (Docket No. RM2004-1) a definition of postal services (as distinguished from nonpostal services, over which it has no jurisdiction). The Postal Service did not oppose this initiative but suggested several refinements to the proposed definition. On March 5, 2004, the PRC proposed to expand the amount of information regarding nonpostal services

that the Postal Service would need to submit when filing a request for recommendations on general changes in rates, fees, and classifications (Docket No. RM2003-2). The Postal Service opposed this proposal, instead taking the view that the amount of information regarding nonpostal services currently required by the PRC's rules is fully sufficient to allow PRC review and evaluation of proposed postal rates, fee, and classification changes. Initial and reply comments from interested parties have been submitted in both dockets, which are currently pending.

On January 25, 2005, the PRC initiated Docket No. RM2005-2 in which it sought comments on possible improvements to its rules for dockets concerning NSAs. The proposed rules were based on experience in the Discover (Docket No. MC2004-4) and Bank One (Docket No. MC2004-3) functionally equivalent NSA proceedings. On March 11, 2005, after receiving initial comments, the PRC decided to suspend the schedule for the filing of reply comments until it completed its reconsideration of its Opinion and Recommended Decision in the Bank One case. On February 10, 2005, the PRC initiated RM2005-3, in which it proposed, and solicited comments on, draft rules applicable to proceedings in which the Postal Service seeks to renew or modify an existing NSA. The PRC issued its Final Rules on May 26, 2005, adopting several proposed changes, including those suggested by the Postal Service to expedite such proceedings.

## E. Transportation Policies<sup>1</sup>

### 1. General

The Postal Service spent \$5.4 billion in 2005 for mail transportation, including terminal dues, transit charges, and other international expenses discussed below. This is a \$468 million increase over 2004, which is primarily related to fuel. The consolidation of routes and improved efficiencies in air transportation mitigated an even greater overall increase in total transportation costs in 2005.

### 2. Domestic Transportation

#### A. HIGHWAY TRANSPORTATION

The Postal Service spent approximately \$2.7 billion for highway mail transportation in 2005. This represents a 9.7 percent increase from 2004 expenses, which is primarily due to increases in fuel prices and mail volumes carried by highway transportation.

#### B. AIR TRANSPORTATION

Air transportation costs in 2005 totaled \$2.4 billion, an increase of 11.9 percent from 2004. This increase is a direct result of rising fuel costs. These costs include the use of domestic commercial airlines (passenger and freight) and dedicated networks. As a continued effort to improve the security pertaining to the air transportation industry, the Postal Service is still prohibited from transporting heavier mailpieces on commercial passenger airlines. This continues to reduce the mail volume flown on commercial airlines and shifts it to the shared air network and to highway transportation.

The Postal Service has completed the first 27 months of the commercial air transportation system (CAIR-03) contracts. At the onset of the CAIR-03 contract, Air Category Management Center awarded 18 individual contracts. Scanning requirements for these contracts began in September 2003. Since then, the Postal Service has been able to track the true performance of all suppliers based on their scans adding both performance and cost into the best value criterion used for routing selection. These contracts enhance competitive positioning by using performance data to manage mail flows.

#### C. RAIL TRANSPORTATION

Expenses for rail transportation were \$120.6 million for 2005. This amount was paid to 11 railroads that perform service on rail segments throughout the country. This represents a 28.8 percent decrease from 2004. In 2005 Amtrak decided not to renew its contract for mail transportation service. The majority of service provided by the Amtrak transportation network had been for Periodicals mail, most of which moved to highway transportation.

#### D. WATER TRANSPORTATION

In 2005 the cost of transporting mail to domestic offshore destinations by water was \$28.6 million, a 5.1 percent increase from 2004.

### 3. International Transportation

#### A. INTERNATIONAL AIR TRANSPORTATION/ INTERNATIONAL AIR DEREGULATION

The Postal Service continues to align its air transportation strategy with the global universal requirements of American businesses and consumers. In 2005 the Postal Service spent \$241 million on international air transportation for mail destined to 188 countries. U.S.-flag suppliers were paid \$198 million and foreign-flag suppliers received \$43 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. The Postal Service is required to use U.S.-flag suppliers

<sup>1</sup> Transportation expense data may not match prior years exactly because of annual recasting of data.

Note: Percentages are calculated based on unrounded numbers.

# Chapter 1

## Compliance with Statutory Policies

where available even if their rates are higher. The cost of military mail, reimbursed by the Department of Defense, increased from \$344 million to \$468 million in 2005.

The Postal Service continues to pursue the deregulation of air transportation rates for the transportation of international and military mail and a transfer to the Postal Service of the authority to contract competitively for such transportation in the open market. Such a transfer of authority may require legislation.

### B. INTERNATIONAL SURFACE TRANSPORTATION

The cost of international surface transportation by ocean decreased from \$4.8 million in 2004 to \$4.0 million in 2005. Ocean surface transportation suppliers are selected on the basis of a best value comparative analysis of proposals.

### C. TERMINAL DUES, TRANSIT CHARGES, AND OTHER INTERNATIONAL EXPENSES

Under the acts of the Universal Postal Union (UPU), each postal administration that receives mail from another administration has the right to collect payment from the originating administration for the costs incurred to process and deliver that mail. These charges are called terminal dues for letter post. International Parcel Post and International Express Mail, as well as private courier services, also incur processing and delivery costs from foreign postal administrations (FPAs). Additionally, the UPU provides for transit charges for mail exchanged between administrations through a third country. Transit charges are paid by the originating country to the intermediary country for its forwarding of mail to the destination.

For the most part, settlements of terminal dues and transit charges are contingent upon both the Postal Service and a FPA accepting statistics with regard to the weights and number of mailpieces exchanged by the two countries. The actual settlement and payment of terminal dues or transit charges can occur a year or more after the service is performed. In order to record expenses associated with the current year, the Postal Service accrues an estimate of these expenses based on available weight and piece data by country. In 2005 the Postal Service recognized \$551 million in terminal dues, Express Mail, transit charges, and other international expense unrelated to the transportation of mail. The comparable expense for 2004 was \$415 million.

## 4. Postal Service-Owned Transportation

The Postal Service-owned fleet is predominantly used to provide transportation for the “first and last miles” of its delivery network. The fleet is used primarily in urban and suburban locations and is augmented by highway contract routes and rural delivery where necessary and appropriate. In

addition to providing delivery and mail processing support, the fleet also includes vehicles used for law enforcement, plant and vehicle maintenance support, mobile Post Offices, and other administrative support functions.

**Table 1-4 Postal Vehicle Inventory**

Vehicle Type	FY 2005 Inventory	FY 2004 Inventory
1/4-Ton	0	22
1/2-Ton	180,075	179,508
1-Ton	1,145	1,180
2 and 1/2-Ton	7,280	7,484
Cargo Vans	2,725	2,502
Tractors	1,786	1,802
Spotters	398	401
Trailers	4,536	4,683
Service	5,606	5,379
Administrative	6,108	5,546
Law Enforcement	3,210	2,675
Mobile Post Office	206	205
Miscellaneous	93	751
Vehicles in storage	978	1,183
<b>Total Owned</b>	<b>214,146</b>	<b>213,321</b>

In 2005 the Postal Service completed acquisition of 2,142 cargo vans. It also completed the solicitation, evaluation, and subsequent contract awards for 1,406 tractors and 382 spotters.

**Table 1-5 Vehicle Operating Data**

Miles Traveled	1,205,911,873
Miles per Gallon	9.6
Cost per Vehicle	\$4,745
Cost per Mile	\$.86

During 2005 the Postal Service conducted a number of vehicle research and development activities, including the purchase of ten advanced diesel vehicles and ten hybrid electric vehicles for test and evaluation; completion of a 24 thousand-mile durability evaluation of a hybrid vehicle on a postal accelerated driving schedule; completion of fuel economy and emission measurement of a hybrid on a postal driving schedule; deployment of two hybrid electric 2-ton vehicles in the Boston area; completion of a comprehensive engine tear-down evaluation of tractors and cargo vans that have operated on biodiesel for the last several years; and continuing the 2-year evaluation of a hydrogen-powered fuel cell minivan for mail delivery in the Washington, D.C. area. A Web site was created to support the fuel cell vehicle program and the interagency task force on hydrogen, for meeting EPACT 2005 requirements.

Moreover, eight additional 2-ton electric vehicles have been placed in operation in New York City. These "CitiVans" were added to the fleet of over 20 postal electric CitiVans already deployed in the Bronx and Staten Island. They are recognized by the EPA as zero emission vehicles and are recharged during off-peak hours. They can travel more than 40 miles on a single electrical charge, making them ideal for use in the demanding "stop-and-go" environment of New York City.

## 5. Mail Transport Equipment

Mail transport equipment (MTE) consists of sacks, trays, lids, pallets, and wheeled containers that enclose and transport mail. The Mail Transport Equipment Service Center (MTESS) program is an outsourced, production-oriented, volume-driven integrated network of 22 MTE processing facilities. MTESS contractors collect, sort, repair, store, and distribute MTE to internal and external Postal Service customers for processing, transporting, and delivering the mail. The Mail Transport Equipment Support System (MTESS), a redesigned Postal Service software application, integrates and manages the network. The MTESS network is undergoing transformation to streamline processing and reduce operating costs.

The independent and externally administered Customer Satisfaction Measurement (CSM) system consistently shows high marks, from both Premier and National managed accounts, for the availability of serviceable MTE.

## F. Postal Service Facilities, Equipment, and Supplies

### 1. Environmental Programs

#### A. ENVIRONMENTAL MANAGEMENT SYSTEMS

An Environmental Management System (EMS) is a framework for identifying and evaluating environmental and business issues. Historically, the Postal Service has used the EMS framework to achieve environmental excellence by addressing key business and environmental issues. Currently, the Postal Service is formalizing and upgrading its framework by adopting the 14001 EMS standard developed by International Organization for Standardization (ISO). This standard has been adopted by the Universal Postal Union, endorsed by senior postal management, and implemented by competitors. The Postal Service has created an EMS program to provide policy, guidance, and oversight of the implementation of ISO standards for a 10-year period. The Seattle Bulk Mail Center has led the implementation effort by self-declaring its EMS conforms to the 14001 standard following a rigorous audit protocol. Ten other postal facilities have begun the process of implementation which will help the Postal Service identify and capitalize on environmental opportunities.

#### B. ENERGY ACHIEVEMENTS — TELEMETERING

The Postal Service is expanding its energy telemetering program to collect comprehensive energy usage data via remote automated electronic systems. This information is essential to monitoring the achievements of energy projects and progress toward the goals of Executive Order 13123, *Greening the Government through Efficient Energy Management*. Telemetering data can also be used real-time by postal facilities to monitor and control energy usage.

#### C. ALTERNATIVE FUEL VEHICLES PROGRAM ACCOMPLISHMENTS

The Postal Service continues to use commercially available alternative fuels where conveniently accessible and competitively priced. This usage decreases fleet emissions, creating the potential for the Postal Service to obtain emission reduction credits that can be traded on an emerging commodity market.

#### D. POLLUTION PREVENTION AND RECYCLING

During 2005 a renewed emphasis was placed on environmentally preferable purchasing. The Postal Service

# Chapter 1

## Compliance with Statutory Policies

worked with suppliers to further expand green product offerings in the custodial, maintenance, repair, and operating categories. The Postal Service continues to advocate the elimination of products containing targeted chemicals and the purchase of products with environmental attributes, including those certified under the EPA's Energy Star Program.

Most Postal Service facilities participate in some form of recycling and/or waste reduction, including recycling undeliverable bulk business mail. In 2005 approximately 1 million tons of wastepaper, cardboard, plastics, aluminum cans, and other material was recycled and generated over \$9.5 million in revenue.

The Postal Service continued successful partnerships with UNICOR Federal Prison Industries, Topeka Area Retarded Citizens Industries, and DOVEBID, Inc., which facilitate the reuse or recovery of surplus and obsolete electronic equipment. In 2004 these partnerships led to the recycling of over 350 tons of computers and parts, and 50 thousand computers were resold instead of being sent to landfills.

### E. ENVIRONMENTAL MANAGEMENT INFORMATION SYSTEMS

The Web-enabled Environmental Management Information System (EMIS) automates the planning, tracking, and reporting of postal environmental business processes for compliance and auditing. It is used for tracking environmental compliance and collecting and analyzing energy consumption data at all types of postal facilities. For any facility, it allows updating and viewing of inventory data on stationary source emissions, such as boilers, and tracking the use and disposal of hazardous wastes.

EMIS provides both high-level and detailed data on asbestos-containing materials to track compliance with associated laws and regulations and provide safety and health-related information. Telemetered data that shows comprehensive energy usage information will eventually be fed into WebEMIS.

### F. "GREENING THE MAIL"

The Postal Service continues to work with mailing industry stakeholders, including the Direct Marketing Association (DMA), the Envelope Manufacturer's Association (EMA), and the American Forest and Paper Association to build on past efforts of the "Greening of the Mail" task force. These initiatives promote environmental and economic solutions to social issues.

To attain this goal, the Postal Service and its industry stakeholders are enhancing programs that encourage waste prevention through better mailing-list management, increasing the recycled content in mailings, and reducing the environmental impact of mail. Studies based on data from the Environmental Protection Agency show that mail has a very

minimal impact on municipal solid waste, and a cost-benefit analysis indicates that mail actually has a net benefit to society. The Postal Service is also exploring opportunities to partner with firms needing some mechanism to help with returns of recyclable material.

The Postal Service is working with the DMA and the mailing industry to reduce unwanted mail. Increasing address accuracy to avoid duplication is part of this program. The Postal Service supports the DMA's "Mail Preference List." The Mail Preference service is similar to the "Do Not Call" list, and most DMA member firms check their lists against the Mail Preference List.

The Federal Reserve, in response to a congressional inquiry, conducted a special study of the financial industry's opt-out programs and found widespread awareness of the program and effective industry-wide and firm-specific processes for customers to remove themselves from mailing lists. The Federal Reserve study concluded that financial direct mail represents a net benefit to the economy, even if response rates are low. Credit card firms, for example, note that about 70 percent of their accounts resulted from mail offers. The Postal Service is working with the industry to help its mailing programs become more relevant and effective to those receiving the offers.

## 2. Facilities

### A. REAL ESTATE INVENTORY

**Table 1-6 Postal Service Real Estate Inventory**

Total owned facilities	8,399
Total owned interior square feet	215,668,829
Total owned land in square feet	936,389,023
Total leased facilities	25,772
Total leased interior square feet	98,820,350
Total GSA/other government facilities	417
Total GSA/other government interior square feet	3,340,793
Rent paid, including taxes, on leased facilities	\$934,199,282

### B. REALTY ASSET MANAGEMENT

Realty Asset Management (RAM) provides internal expertise to identify, analyze, and maximize the return on underutilized and surplus real property assets controlled by the Postal Service. RAM generates income from real estate assets by maximizing the value of Postal Service property through its highest and best use, leasing or subleasing excess space to government and public tenants, and selling surplus property.

**Table 1-7 Realty Asset Management**

(\$ millions)	
<b>Gross Revenues</b>	
Leasing to private tenants	21.7
Leasing to government tenants	28.3
Sales of excess property	48.3
<b>Total</b>	<b>\$98.3</b>

## C. POSTAL SERVICE FACILITIES WORKLOAD

**Table 1-8 Postal Service Facilities Projects**

	<b>Completed During 2005</b>	<b>Ongoing as of End of 2005</b>
New construction, major renovations, expansion projects	25	433
Building purchases	44	89
New lease construction	15	47
Other lease actions (alternate quarters, new leases, lease renewals)	4,776	1,174
Expense repair and alteration projects	11,151	5,352
Capital repair and alteration projects	3,683	12,776

**3. Supply Management**

To increase customer satisfaction and reduce costs, the Postal Service has implemented supply chain management (SCM) as a core business practice. SCM furthers competitive and business objectives by focusing resources on lowering overall costs. It is a key enabling strategy of Postal Service Transformation. Now functioning throughout the organization, SCM has contributed over \$2.1 billion in cost savings, cost reductions, cost avoidances, and revenue generation in the form of rebates since 2000. In 2005 nearly \$781 million in cost benefits were attributed to SCM activities.

Under SCM, cross-functional collaboration within the Postal Service and collaborative partnerships with key suppliers, have assured the quality of purchased products and services, even as new cost efficiencies have been achieved. In attaining these results, the Postal Service has focused on leveraging volume through strategic sourcing requirements, instituting standardized requirements based on historic demand, executing commodity strategies, expanding eBuy (the organization's paperless requisitioning and ordering system), and participating in strategic partnerships.

## A. SCM INITIATIVES

During 2005 the Postal Service awarded a 5-year contract for computer data storage as part of the electronic information back-up, disaster recovery, and business continuity efforts. The Postal Service also awarded a contract for 210 automated flat sorting machine 100 automatic induction (AFSM-ai) systems. The AFSM-ai system is an enhancement to the AFSM100 flat sorting machine that automates the preparation and feeding of flat-shaped mail. A cross-functional team worked with the vendors to apply SCM techniques to improve efficiencies and reduce costs.

Contracts were awarded for new mail transport equipment (MTE) totaling \$170 million in 2005. The team implemented a combination of SCM strategies including: the forward purchase of 20 million pounds of plastic resin used in manufacturing mail trays, avoiding a significant price increase; the use of a sophisticated "optimization" software tool to award three contracts for 35 thousand new wire containers; value chain mapping to analyze the numerous transportation supply links, including those at the subcontract level; and in-depth supply market analysis to source 22 million mail trays.

Over the next few years, the Postal Service will continue to deploy new Postal Automated Redirection System (PARS) equipment throughout the organization. Existing Flats Forwarding Terminal (FFT) label characteristics were redesigned so that the labels could be used on both FFT and PARS equipment.

The Postal Service implemented a national contract for tire re-treading. Prior to awarding this national contract, tires were re-treaded through local suppliers, with each vehicle maintenance facility having the authority to interpret and implement re-tread policies for its own operation.

The Postal Service successfully implemented a Total Solid Waste Management program. Total Waste Management reduces trash removal fees, generates revenue from recycling, improves operational efficiencies, and reduces administrative cost. The SCM strategies employed in this initiative were as follows: analysis to right-size containers and determine frequency of scheduled pick-ups; reverse auction and optimization tools to select strategic partners; and redesigning processes to enable collection, sorting, storing, and hauling of recycling material.

In early 2005, the Postal Service recognized eight external suppliers with Quality Supplier Awards. These suppliers were recognized primarily for their partnering to achieve positive bottom line and performance results through successful supply chain management efforts.



# Chapter 1

## Compliance with Statutory Policies

### B. E-BUSINESS

eBuy provides a Web-based strategic ordering tool via automation of streamlined SCM workflow processes. More than 70 thousand postal requisitioners and approval managers have access to eBuy. They regularly make requests, obtain approvals, and receive advanced shipping notices for online e-catalog supplies. The eBuy system also enables supplier collaboration via e-mail messages and uses online electronic invoicing, invoice certification, and payment processes. During 2005 eBuy processed \$503 million worth of e-catalog requisitions. eBuy is also used for requisitioning off-catalog supplies and services to capture spend data used to identify cost reduction opportunities, develop commodity strategies, and capture all requisition information. eBuy performs invoice certification for paperless invoices from utility companies and telecommunications suppliers.

In 2005 the Postal Service implemented the Web-based Contract Authoring and Management System (CAMS), a best-in-class commercial off-the-shelf product, to replace the previous system. CAMS provides strategic solutions and promotes e-collaboration across SCM business processes from contract purchasing planning, demand management, and e-sourcing to contract generation and administration, supplier rating, and spend analysis. CAMS also contains internal audit controls and eliminates paper by interfacing with eBuy.

The Postal Service strives to become an industry-leading strategic e-sourcing organization. Consistent with best-in-class commercial business practices, the Postal Service has increased its usage rate of the desktop reverse auction software tool. As a result of using several full- and self-service e-sourcing tools, the Postal Service conducted nearly 975 reverse auctions in 2005, accounting for an estimated contract amount of nearly \$580 million which saved the Postal Service \$69.5 million.

### C. PURCHASING REFORM

The Postal Service is implementing purchasing reform to gain new effectiveness in its buying and supplying activities. Supply chain management business practices are being institutionalized throughout the Postal Service under a new policies integration initiative that combines buying and supplying practices.

The Postal Service replaced its old purchasing regulations with new regulations that are more business-like, streamlined, and focused on obtaining best value. The new regulations are easily understood, focus on purchasing quality goods and services at fair prices, and provide an expedited and inexpensive means of resolving business disagreements. The new regulations were published in the April 19, 2005, *Federal Register*, and became effective May 19, 2005. They provide the flexibility necessary to be successful in a highly

competitive environment. The accompanying *Interim Internal Purchasing Guidelines* became effective on the same date and are available on *usps.com*.

### D. SECURITY- AND ENVIRONMENTAL-RELATED PURCHASES

In the last quarter of 2005, Hurricanes Katrina and Rita wreaked devastation on the people and infrastructure of the Gulf States, including extensive damage to Postal Service facilities, equipment, and delivery capabilities. The Postal Service provided a rapid and effective response to these crises by making emergency purchases to ensure deliveries to an estimated 700 thousand customers. The Postal Service purchased supplies and services that included carrier casing equipment, Post Office box modules and locks, cluster box units, satellite and cell phones, carrier route vehicles, change-of-address kits, lighting, and fuel for generators and vehicles. Heavy duty vehicles were rented. Strong partnerships with freight carriers enabled the Postal Service to deliver emergency meals, water, and ice to postal employees at affected facilities. Supplies inventories were redistributed to damaged facilities and change-of-address kits were distributed to hundreds of thousands of evacuees from the disaster areas.

### E. MAJOR PURCHASES

The Postal Service awarded contracts of \$118 million for tractors and \$23 million for spotters. These initiatives resulted in cost avoidance of more than \$6 million. A contract was awarded for nearly \$61 million for 3,100 left-hand drive alternative fuel minivans and 10 clean diesel vehicles.

A contract extension for \$28 million was awarded to a key supplier for its Real Application Clusters software which allows different postal computer systems to communicate seamlessly with each other.

A contract for \$60 million was awarded for computer data storage as part of electronic information back-up, disaster recovery, and business continuity efforts. The Postal Service managed the supplier transition efforts for telecommunication services under the Universal Computing Connectivity initiative awarded to a key supplier for a minimum 6-year period with a \$200 million minimum spend. The transition will be completed over 2 years.

A contract was awarded for \$23 million for the purchase of 8,500 high security collection box units for high-crime areas. These boxes have proven to be secure and are a major deterrent to mail theft.

The Postal Service awarded a Design-Build contract with a guaranteed maximum price of \$48.7 million to design and construct a new 428,951 square foot building on an existing purchased site in South Portland, ME. The contract amount

includes more than \$4 million in mechanization to process mail within the facility.

The Fleet Card for purchasing fuel for Postal Service vehicles has been expanded to highway contractor routes (HCRs) adding 7,903 HCRs to the program. Use of the Fleet Card for HCRs generated more than \$9 million in savings and rebates for the Postal Service by ensuring that contractors are paid for actual gallons used via the Fleet Card, not maximum gallons contained in each individual contract. The Postal Service awarded new 2-year contracts for \$230 million to 11 qualified suppliers for the transportation of mail and equipment on 1,302 one-way, unscheduled, demand-responsive transportation services to and from various postal locations throughout the continental United States.

#### F. SUPPLIER DIVERSITY

In 2005 the Postal Service had contract commitments that exceeded \$3.8 billion with small businesses; \$292 million with minority businesses; and \$572 million with woman-owned businesses.

Supplier Diversity continues to strengthen the Postal Service's competitiveness in the marketplace. Embedding supplier diversity in the routine practices and procedures that govern the purchasing process focuses the continuous development of suppliers through improving processes and procedures to ensure opportunities for all suppliers that provide value-added products and services to meet postal needs now and well into the future. The *Supplier Diversity Corporate Plan (2004–2006)* outlines essential elements that have improved overall supply management performance. The nine elements are: management involvement, communication and outreach, sourcing, subcontracting, innovative initiatives, training and development, performance indicators, tracking progress, and recognition.

Supplier Diversity launched several initiatives to emphasize supplier diversity as a core component of Postal Service operations. They include on-site and online training, establishment of a comprehensive supplier diversity sourcing matrix, and joint memberships with prominent multicultural business and trade groups such as National Minority Supplier Development Council, Women's Business Enterprise National Council, Hispanic Chamber of Commerce, U.S. Pan Asian American Chamber of Commerce, and the National Congress of American Indians. The results of these efforts have continued to promote the Postal Service as a leader in the marketplace.

The Postal Service's diversity efforts have been recognized by leading publications and organizations, including *Forbes* magazine, *DiversityPlus* magazine, and *DiversityBusiness.com*, which named the Postal Service as the "top organization for multicultural business opportunities in 2005."

## 4. Mail Security Equipment

### A. VENTILATION AND FILTRATION EQUIPMENT

The Ventilation and Filtration System (VFS) program began in 2002 to counter the threat of biohazardous material in the mailstream. Its objective is to reduce the risk of biohazards and to prevent cross contamination of mail. The two systems supplied by different manufacturers are essentially large vacuums that incorporate high efficiency particulate air (HEPA) filter technology to capture and contain aerosolized particles expelled from the mail. Ventilation intakes pull airborne material into a filtering system that captures dust, potential contaminants, and particles of bacterial size and smaller. The VFS program fulfills the containment strategy of our Emergency Preparedness Plan. Deployment of all VFS equipment is expected to be completed during 2006.

### B. BIOHAZARD DETECTION SYSTEM

The Biohazard Detection System (BDS) is a special set of equipment that acts as an early warning system for the detection of biohazards within the Postal Service's processing plants. It is designed to detect trace amounts of biological agents in the mailstream. The BDS system will automatically notify key individuals in the case of an alert. The purpose of the BDS is to reduce the risk to postal personnel and the general public from the threat of biohazardous materials sent through the mail. The BDS program fulfills the detection strategy of our Emergency Preparedness Plan. Deployment is scheduled to be completed in the first quarter of 2006.

<b>Shipping</b>	
<b>Global Express Guaranteed</b> 1-3 business day delivery guaranteed. International delivery provided by FedEx Express.	Documents <b>\$24.00</b> and up Packages <b>\$36.00</b> and up
<b>Global Express Mail</b> 2-5 business day delivery.**	<b>\$15.50</b> and up
<b>Global Priority Mail</b> 4-6 business day delivery.**	<b>\$4.00</b> and up

<b>Signature Confirmation</b> Delivery date, time & signature for packages.	<b>\$1.80</b>
<b>Registered Mail</b> Most secure service. Delivery date & time. Includes insurance.	<b>\$7.50</b>
<b>Certified Mail</b> Documented proof of mailing for letters. Delivery date & time.	<b>\$2.30</b>
<b>Return Receipt</b> Delivery date, time & signature by postcard. Available with Certified Mail and Registered Mail services.	<b>\$1.75</b>
<b>Insurance</b> Insured against loss or damage up to \$5,000.	<b>\$1.30</b> and up

\*\*Also available on international mail.





### A. Public Perceptions, Customer Outreach, and Mailer Liaison

#### 1. Customer Feedback Analysis

The Postal Service uses a variety of means to communicate with customers about products, services, and policies. The information from these customer contacts allows for its integration into postal planning and business practices. In 2005 the Postal Service Corporate Customer Contact handled more than 65 million customer inquiries via phone, Internet, and mail. Of these, nearly 2.8 million were customer issues that were documented and electronically sent to the appropriate local Post Office or district Consumer Affairs unit for resolution. Reports providing statistical summaries of all documented issues are available for personnel with managerial oversight to analyze trends and take appropriate actions. The Postal Service also incorporates feedback that is received through its Business Service Network from business customers.

#### 2. Privacy

The Postal Service established a Privacy Office in 2000 to protect the value that privacy brings to the trusted Postal Service brand. Re-designated in 2005 as the Privacy Office, Consumer Policy and Strategy, it continued to integrate and communicate privacy issues, while expanding support for customer policies and procedures.

This year the Postal Service accomplished three key privacy goals. First, it inaugurated comprehensive and specialized Postal Service privacy training. Training consists of a general session on Postal Service policies and practices for proper collection, use, and protection of customer and employee information. In addition, customized sessions were built and delivered that focused on case studies of major companies that experienced a variety of significant privacy breaches.

Second, it published a revised Postal Service Privacy Act Systems of Records. Although the number of systems was reduced by half, from 90 to 45, the new systems broaden coverage and compliance with the Privacy Act. They are easier to use for employees and customers whose data is protected, as well as for management personnel with compliance responsibilities.

Third, the Postal Service furthered its goal to develop streamlined tools for employees and customers. This included automation of Freedom of Information Act (FOIA) request processing through the eFOIA Tracking System. This system will reduce resources required for extensive manual hard copy processing. In 2005 the tracking system electronically processed requests and automatically generated the 2004 FOIA Annual Report required for submission to Congress.

### 3. Customer Outreach and Mailer Liaison

#### A. NATIONAL POSTAL FORUM

In 2005 the Postal Service directed and supported the National Postal Forum (NPF) in Nashville, TN. Attendees included more than 6 thousand business customers and exhibitors. The NPF theme was "Where Knowledge and Innovation Connect," which provided attendees with insight into the vision, plans, and priorities of postal and mailing industry leaders. Postal Service executives, along with industry leaders, led discussion groups that addressed issues of interest to remittance, Periodicals, package, and advertising mailers. Sessions on address management, costs and rates, and preventing fraud scams were offered.

More than 2 thousand participants attended 130 training and education program workshops. Eleven certificate programs were offered as part of the Postal Service's commitment to continuing education. The 2005 Forum also featured five 1-day symposia on Marketing, Printing, Periodicals, Packages, Mail Intelligence, and Research. The forum's educational program was complemented by the exhibit floor, which featured hundreds of companies displaying the latest in mailing supplies, services, automation equipment, software, and systems.

#### B. EXECUTIVE MAIL CENTER MANAGER PROGRAM AND MAIL DESIGN PROFESSIONAL PROGRAM

In response to feedback from the mailing industry, the Postal Service partnered with mailing industry professionals and nationally recognized training experts to develop the U.S. Postal Service Executive Mail Center Manager Program. Offered as both a residency program and through the Postal Customer Council (PCC) network, the program has been operational since December 2001. To date, 550 mailing industry professionals have completed this comprehensive 40-hour program.

The Mail Design Professional Program was developed in August 2004 for mailing industry professionals. The 32-hour curriculum is focused on technical skills needed to prepare mail while optimizing its compatibility with Postal Service automated equipment to ensure greatest efficiency and cost savings.

#### C. POSTAL CUSTOMER COUNCILS

The Postal Service and its customers have long benefited from collaborating through grassroots organizations such as the Postal Customer Councils (PCC). The mission of PCCs is to enhance working relationships with local businesses, to better understand customer needs, and to educate customers on Postal Service products and services to help businesses grow. Current membership represents more than 100 thousand businesses. In June 2005 the PCC "Directory

of Mail Service Providers” was launched to connect local business with local service providers. “Keeping Posted” is a featured column about PCCs in *Memo to Mailers*, a monthly magazine distributed to 150 thousand commercial mailers. Complementing this publication is the national PCC Web site at [usps.com/nationalpcc](http://usps.com/nationalpcc). In 2005 the site was redesigned with improved navigation and value-added content. The average number of monthly visitors to the site was 4,300.

National PCC Day was continued in 2005 on September 14, via a live nationwide satellite broadcast from Madison, Wisconsin. The Postmaster General delivered the keynote address to more than 13 thousand business mail customers, almost twice the number that tuned in for 2004. The annual PCC Leadership Conference was held at the National Postal Forum in Nashville, Tennessee. During 2005 more than 200 local PCCs held approximately 700 events and took advantage of the PCC Speakers Bureau. Many PCCs actively sought the participation of small- and medium-sized businesses through Direct Mail Made Easy seminars. As a result of these seminars, more than 200 individuals became new PCC members.

As part of the PCC network initiatives, the Postal Service began offering a series of “Workshop in a Box” seminars that help local businesses and nonprofit organizations boost their mailing efficiency, market their services, and get the most out of their mail. Seminars sent to PCCs in 2005 included Direct Mail by the Numbers, DMM 200, PC Postage Solutions, Shipping Made Easy, a special Bulk Mail Edition, and Simple Formulas.

#### D. ADVERTISING WITH MAIL — MADE EASY SEMINAR

The *Advertising with Mail — Made Easy Seminar* is now in its sixth year, with approximately 224 seminars completed in cities across America. In 2005, 24 seminars provided more than 1,500 businesses with the information and tools necessary to effectively use the mail to advertise their products and services.

#### E. MAILING INDUSTRY TASK FORCE

The Mailing Industry Task Force (MITF) involved more than 72 companies and some 200 industry and Postal Service executives in an effort to stimulate mail channel revenue growth and make mail more effective. In 2005 these executives partnered to encourage and support mail growth, service quality, and customer satisfaction through three working groups: Intelligent Mail and Address Quality; Payment and Pricing; New Products, Services, and Gateway. Highlights included work on the following:

- OneCode Address Change Services (ACS) to improve the accuracy and reliability of Address Quality services by replacing manual processing with an electronic process.

- Automated return mail processing using information in a newly finalized barcode, which uses the 4-state symbology to help mailers automate the processing of return mail.
- Mailing list certification enhancements to increase industry adoption of mailing list certification.
- Reply Mail improvement to increase convenience to mailers, improve the accuracy of information, and reduce Postal Service costs.
- Reinforcing the value of mail to consumers by showcasing the value mail offers consumers as a medium for communications, as a convenient vehicle for making payments, and as a vehicle for receiving goods purchased online or through catalogs.

MITF continued throughout 2005 to provide a framework for the development of mailing industry innovations through its Innovation Incubator Initiative. This initiative drew upon input from masters of business administration students for creative ideas and concepts for mailing innovation.

#### F. MAILERS’ TECHNICAL ADVISORY COMMITTEE

The Mailers’ Technical Advisory Committee (MTAC) celebrated 40 years of achievement in 2005. MTAC is a joint effort between mailers and the Postal Service to share technical information, advice, and recommendations. It consists of industry representatives from over 50 mailing associations and organizations. During 2005 MTAC emphasized Seamless Acceptance and Induction, Service Measurement and Improvement, Address Accuracy, and Optimization of Preparation and Entry. Five work groups were successfully completed during 2005 and several new work groups were initiated.

#### G. MAIL TECHNOLOGY STRATEGY COUNCIL

The Postal Service sponsors a Mail Technology Strategy Council which includes representatives from the mailing industry, paper manufacturing, printing, packaging, mail equipment, and information technology industries. Council members provide independent advice on developments in technology that are likely to impact the mailing industry. Members provide insight on the direction in which technology is moving and how these trends might be used to enhance the mailing industry. The group not only reviews hardware and software developments, but also puts these developments in the context of applications and business processes.

#### H. MAIL RECOVERY CENTERS

The Postal Service operates two mail recovery centers (MRCs), located in St. Paul, Minnesota, and Atlanta, Georgia. These facilities are responsible for the final disposition of

undeliverable-as-addressed (UAA) and non-returnable First-Class Mail and packages. During 2005 the MRCs processed approximately 3.2 million parcels and 79.7 million letters. The Postal Service works closely with mailer organizations to identify ways to provide better service and reduce operating costs. A direct result of this process is the Expanded Return Program, in which undeliverable items found in company-identifiable packaging are returned in bulk, as postage due, to 40 participating companies. In 2005 most mail received at the MRCs was determined to be of no obvious value and was destroyed. A total of 6.4 million of the remaining pieces of mail was returned to their rightful owners. The Postal Service continues to improve processes for identifying rightful owners of UAA mail.

### I. CORPORATE CUSTOMER CONTACT

Corporate Customer Contact (CCC) provides customers with easy, toll-free access to a broad range of products and services through a comprehensive network of toll-free numbers. CCC handles a variety of general inquiries and transactions through 800-ASK-USPS. An additional toll-free number, 800-222-1811, handles international and domestic Express Mail inquiries, as well as domestic delivery and signature confirmation inquiries. CCC accepts customer orders for stamps through 800-STAMP-24, and also provides support for the majority of e-mail customer contacts through the *Contact Us* page on *usps.com*. The overall goal is to improve customer service, improve operating efficiency, decrease general information calls to local offices, and increase revenue. The CCC network has centers in Denver, Colorado; Orem, Utah; Jacksonville, North Carolina; and Columbia, Maryland. This contact center network responds to queries ranging from general information, such as mailing rates, hours and locations of local Postal Service facilities, and service problems, to stamp orders, track and confirm inquiries, and technical problems related to *usps.com*.

## B. Mail Volume and Service Performance

### 1. Mail Volume

The Postal Service contracts with Global Insight, Inc., to provide ongoing economic analyses and projections and uses those forecasts in developing the annual Postal Service Integrated Financial Plan. In developing the revenue and volume forecasts of its 2006 Integrated Financial Plan, the Postal Service relied on what was Global Insight's projection, dated July 2005. Based on Global Insight's forecast, the Postal Service is planning for slow growth in both economic output and aggregate demand in 2006 in an economic environment less strong than that of 2005. Further, as projected by Global Insight, gross domestic product (GDP) growth will moderate to an annualized rate of 3.1 percent in 2006.

Postage rates increased on January 8, 2006, as required to meet the 2006 escrow funding obligation of P.L. 108-18. As recommended by the Postal Rate Commission and as approved by the Postal Service Board of Governors, rates for most mail classifications will increase by 5.4 percent while rates for all other mail classifications will be either slightly more or slightly less than that amount. In response to this first rate increase in 4 years, total volume growth is expected to slow even as overall revenue increases. Standard Mail again is expected to contribute the greatest share of volume growth, while First-Class Mail volume, particularly single-piece letter volume, will continue to decline.

Mail volume is positively affected by economic growth. Economic growth slowed slightly in 2005 after a strong 2004. In July 2005 Global Insight, Inc. projected 2005 growth in real GDP at 3.7 percent, following 4.6 percent growth in 2004. Economy-wide retail sales, an economic indicator for Standard Mail and workshare First-Class Mail, grew 5.0 percent in 2005 but are expected to slacken somewhat to 2.5 percent in 2006. Volatile energy prices, the cooling of the housing market, rising interest rates, and American auto manufacturers' elimination of price incentives are expected to reduce growth in spending on durable goods. A projected slowdown of retail sales in 2006 leads the Postal Service to project a lower growth rate for Standard Mail volume and to project a small decline in workshare First-Class Mail volume.

Employment has been an indicator for single-piece First-Class Mail volume. For many years now, despite increased total employment and strengthened economic growth, single-piece First-Class Mail volume has declined. The current decline in single-piece mail relates to the weakness of the economy, the absence of new hard-copy billing and statement applications, and electronic diversion of bills and statements. Future volume growth should be transitory as First-Class Mail volume will continue to be affected negatively by long-term trends in communication and payment technologies. The moderate growth in employment projected by Global Insight will not drive volume increases sufficiently to overcome the negative impacts of electronic diversion. The Postal Service is projecting a continuance of the multiyear downward trend in First-Class Mail volume despite the slight increase in 2005.

After 4 consecutive years of decline, Priority Mail volume rebounded in 2005. This rebound is likely the result of several factors. Private sector competitors have increased their prices while the Postal Service has kept its prices stable. Moreover, private sector competitors have instituted and increased surcharges to cover higher costs in such areas as delivery to residential customers, delivery to rural customers, and fuel. Concurrently, the Postal Service has made Priority Mail service easier to use by introducing the flat-rate box and by bringing the Post Office to the customer with online postage and Carrier Pickup service. The rate increase is expected

to level Priority Mail volume growth in 2006. Express Mail volume also experienced a rebound in 2005, growing 2.5 percent after 4 years of declining volume. The 5.4 percent price increase is expected to reduce Express Mail volumes by 2.7 percent in 2006. Technological and demographic changes continue to retard any growth in Periodicals volume. The growth projected in Package Services is based on projected increases in Bound Printed Matter and Media Mail volumes. The Postal Service expects Parcel Post volumes to decline in 2006.

**Table 2-1 Volume Forecasts**

(pieces in millions)

	2005 (Actual)	2006 (Estimated)	2007 (Estimated)
First-Class Mail	98,071	95,884	92,456
Priority Mail	887	883	857
Express Mail	55	54	48
Periodicals	9,070	9,117	8,999
Standard Mail	100,942	104,309	105,652
Package Services	1,166	1,207	1,209
International	852	836	808
Other*	700	740	771
<b>Total</b>	<b>211,743</b>	<b>213,030</b>	<b>210,800</b>

\*The Other category includes mail sent by the Postal Service, mailgrams, and free matter for the blind and handicapped.

Note: Numbers may not add due to rounding.

## 2. Service Performance

First-Class Mail service performance results are measured through the Transit Time Measurement System (TTMS). TTMS is an independent, external system administered by IBM Business Consulting Services. The main goal of TTMS is to measure service performance from the customer's point of view. The External First-Class (EXFC) measurement system, the major component of TTMS which has been in existence since 1990, continuously tests a panel of 463 three-digit ZIP Code areas. These areas are selected on the basis of geography and volume density. The test represents ZIP Code areas from which 90 percent of First-Class Mail volume originates and to which 80 percent destinates. Test mail is inducted by "droppers" into collection receptacles, and the time and date are recorded. The mail is received either at a home or business address by "reporters," who log and report the date of receipt. EXFC is not a system-wide measurement of all First-Class Mail performance. The system mirrors the customer experience, but does not reflect volumes entered by large mailers or intermediaries.

The EXFC system reported national overnight performance of 95 percent for the entire year in 2005. National service performance for 2- and 3-day service for 2005 was reported as 91 and 87 percent, respectively. See chapter 4 for further details.

While Express Mail and Priority Mail performance is tracked and has improved during the past 5 years, because these products are competitive, the data was considered proprietary and not published. However, customers can track their own Express Mail, Priority Mail, and package services parcels with Delivery Confirmation on *usps.com*. Commercial letter or flats mailings can be tracked using CONFIRM service.

## 3. Customer Satisfaction

The Customer Satisfaction Measurement (CSM) process provides reliable and actionable information to Postal Service managers by identifying opportunities to improve overall customer satisfaction. CSM is composed of three components:

- CSM-Residential (CSM-R) — measures household customer satisfaction.
- CSM-Business (CSM-B) — measures business customer satisfaction.
- CSM-Event-Based (CSM-EVB) — measures customer satisfaction with specific events or activities, such as customer's experience with the Business Mail Entry Unit.

The customer satisfaction survey process is measured independently by The Gallup Organization. The CSM-R national results (see Table 2-2) showed a sustained CSM-R score of 93 percent for combined overall performance ratings of *excellent, very good, and good* for the first three quarters of 2005. For Postal Quarter IV, the overall performance rating from residential customers increased to 94 percent.

CSM-B measures the satisfaction of business customers. Because needs vary markedly, the Postal Service tracks satisfaction for three levels of business customers — from the largest volume mailers to small business customers. National Accounts are the Postal Service's largest revenue customers and are managed by National Account managers. Premier Accounts are large revenue-generating business customers managed by local account representatives. The third category, Preferred Accounts, is all other business customers not identified as National or Premier Accounts. Preferred Accounts are typically small businesses service by a local Post Office.



**Table 2-2 CSM Overall Performance Ratings by Customer Grouping Percent Rated Excellent/Very Good/Good**

2005	PQ I	PQ II	PQ III	PQ IV
National Accounts	94	93	93	94
Premier Accounts	91	92	91	92
Preferred Accounts	92	92	92	92
Residential	93	93	93	94

### C. Products and Services

The Postal Service has a statutory requirement to provide products and services that meet the varied needs of business and household customers. In 2005 the Postal Service continued to focus on developing new products and services to meet customers' evolving needs, and also continued to enhance the value of existing products and services.

#### 1. Correspondence and Transactions

In 2005 there was a continued focus on transaction mail (bills, statements, and payments) to strengthen the mail as the primary channel for financial transactions. Ongoing refinements of the National Firm Holdout program and constant attention to 2-day and 3-day service performance have supported service improvements in this critical part of the mail base.

##### A. REPLY MAIL

Reply Mail lets businesses provide preaddressed letters and postcards, with or without postage, to encourage customers to respond to their offers. In 2005 the refinement of the Reply Mail Web site located on *usps.com* made Reply Mail easier and more effective for business customers. The Web site provides customers with information on how to use Courtesy Reply Mail (CRM) and Business Reply Mail (BRM) effectively and increases customer ease-of-use by reducing the time and effort required to apply for and obtain a BRM permit and ZIP+4 code. CRM customers can design their letter/postcard mailpieces, obtain a unique ZIP+4 code, and create an electronic mailpiece.

##### B. REMITTANCE MAIL

Remittance Mail is the segment of First-Class Mail service comprised of payments typically enclosed in Courtesy Reply envelopes. When combined with outgoing bills and statements, bill and remittance mail accounts for an estimated 50 billion pieces or 57 percent of First-Class Mail.

Due to the economic importance of bills and remittance mail, the Postal Service implemented an Improvement and Innovation Initiative to respond to current and growing

challenges in the payments industry. The initiative is designed to identify and implement service improvements that ensure consistent performance and expedited mail processing and delivery and to introduce innovative solutions for the industry to position the Postal Service as a value-added service provider.

#### 2. Direct Mail

Direct mail is a content-rich advertising medium appreciated by its users for its effectiveness. A significant source of revenue for the Postal Service consisting mostly of items sent by Standard Mail, direct mail also includes a sizeable amount of Bound Printed Matter and First-Class Mail. Research shows that most recipients believe that direct mail is the most convenient method for staying informed of goods and services to help manage their home or business.

In 2005 direct mail revenue grew by almost 5 percent and volume grew by almost 6 percent. The foundation for this growth was based on factors such as the target-ability and measurability of direct mail, the response rates, and the return on investment which is among the highest of all advertising media. Some growth can also be attributed to recent developments in blocking spam e-mails and telemarketing calls, and the availability of innovative products such as *Customized MarketMail* and Ride-Along.

##### A. REPOSITIONABLE NOTES

Repositionable Notes (RPNs) allow direct marketers to apply specialized self-adhesive notes on mailpieces to communicate highly targeted messages to consumers. The notes can be repositioned (e.g., removed and placed near a telephone or on a computer or refrigerator) to serve as a handy reminder of the promotion or offer. The Postal Service initially launched RPNs in 2003 for use on automation-compatible letters. In April 2005, the Postal Service launched a 1-year provisional service test to allow customers to affix RPNs to all letter- and flat-size First-Class Mail, Periodicals, and Standard Mail, for a fee.

##### B. PREMIUM FORWARDING SERVICES

In August 2005, the Postal Service launched Premium Forwarding Services (PFS) for residential customers who are away from their primary residence for a minimum of 2 weeks and up to 1 year. For the first time, the Postal Service will forward all Standard Mail, publications, and First-Class Mail from the customer's primary address to a temporary address once a week using PFS. This is significant for Standard Mail advertisers because their mail will now be forwarded at no additional cost to the advertiser. All Express Mail, Priority Mail, Package Services Mail, and Accountable Mail requiring a scan or signature are forwarded immediately upon arrival at the primary address Post Office. As of January 8, customers

pay a \$10 enrollment fee and \$10.40 for each weekly Priority Mail shipment.

### C. DIRECT MAIL PROMOTION AND RESEARCH

The Postal Service is actively engaged in raising awareness about Direct Mail with advertising agencies and large and small advertisers. The Postal Service launched *Deliver* magazine in 2005 to showcase direct mail best practices and success stories to advertising professionals. Postal Service marketing executives conducted meetings with senior advertising agency executives to discuss the advantages of direct mail and explore opportunities for agencies to make greater and more effective use of the mail. The Postal Service's Direct Mail Web site on [usps.com/directmail](http://usps.com/directmail) was redesigned to make it easier for advertisers, especially small businesses, to learn how to get started with direct mail.

The Postal Service concluded a market research study, the Multi-Channel Catalog Study, that highlighted and quantified the increased traffic and sales generated on Web sites when hardcopy catalogs are received. The study showed that consumers who receive a catalog prior to shopping online are much more valuable customers. The research shows that online consumers who received a catalog from a retailer were nearly twice as likely to make an online purchase at that retailer's Web site. Additionally, they made 15 percent more transactions than those who did not receive catalogs and their spending was 16 percent higher.

The Postal Service conducted a research study to assess the impact of direct mail on driving credit card applications online. The study showed that mail is the overwhelming source for consumers going online to apply for a credit card because it provides them the information they need to decide if the offer is useful and relevant for them. More than 50 percent of consumers prefer receiving this information in the mail while only 24 percent prefer to receive it over the Internet. Further, they are more likely to open and read mail. So, mail drives the online application — almost 40 percent of all the online applications resulted from the customers reading a direct mail message while only 7 percent resulted from customers reading an e-mail message.

The Postal Service also conducted groundbreaking research on the value of mail for consumers and found the Mail Moment is the unique time — 30 minutes on average — when consumers bring mail into their home, sort, review, and act on it. This research analyzed consumer perception of the value related to the Mail Moment versus their experiences with commercial e-mail. The study found that, despite significant declines in personal correspondence resulting from electronic alternatives, consumer use of hardcopy mail continues at a healthy pace.

Data collected during the research indicates that hardcopy mail triggers the following actions that electronic media cannot match:

- 98 percent of households bring in their mail every day.
- Of these, 72 percent bring it in as soon as possible.
- 77 percent sort through their mail immediately. What's more, mail is perceived as more enjoyable and valuable than the Internet:
  - Mail's format is better suited for reading.
  - Hardcopy mail allows consumers to read it in places where they like to spend their time.
  - Mail is perceived to be very private, secure, and personal, much more so than the Internet.

### 3. Value Added and Special Services

Value Added and Special Services are a unique set of products that can be purchased for a fee, either separately or as an added feature to one or more delivery services like First-Class Mail, Express Mail, Priority Mail, and Package Services. Special Service products are an essential cornerstone of the Postal Service's strategy to increase usage and incremental sales of other core services.

Special Services add value primarily by providing security and accountability with benefits that permit customers to verify mail receipt and delivery, obtain signatures, insure mail contents, and register mail for additional protection. Customers can also track letters and flats and receive vital information through the CONFIRM service. Post Office boxes and Caller Service offer additional alternatives for receiving mail.

#### A. IMPROVE ACCESS

In 2005 the Postal Service continued to improve ease of use for Special Services, especially by leveraging technology to add value and convenience. For example, customers can now retrieve the delivery status of items sent by Certified Mail or Registered Mail over the Internet, by telephone, or by bulk electronic file transfer for large volumes.

##### 1. RETURN RECEIPT (ELECTRONIC)

Return Receipt (Electronic) is a domestic special service that uses low-cost technologies to provide customers with an alternative to the existing PS Form 3811, *Domestic Return Receipt* (Green Card). It was launched in September 2004. Mailers purchase Return Receipt (Electronic) at the time of mailing with Certified Mail, Registered Mail, Collect On Delivery, or Numbered Insured Mail services. After the

purchase, the customer enters the e-mail address at which they wish to receive their return receipt at *usps.com*. After delivery, the customer is sent a return receipt proof-of-delivery letter via e-mail that includes the date and time of delivery and an image of the recipient's signature. Large volume customers can sign up for the Bulk Proof of Delivery Program to receive their records in bulk. In 2005 this new enhanced product provided opportunities for customers and the Postal Service to improve efficiency. It was marketed mainly to bankers, insurance companies, and vendors.

### 2. INSURANCE ONLINE

The Postal Service provides customers who purchase shipping labels on *usps.com* with the option to add domestic insurance to Click-N-Ship and eBay purchases. Click-N-Ship customers may add insurance to Priority Mail and Express Mail; eBay customers may add insurance to Priority Mail, Express Mail, First Class Mail, Media Mail, and Parcel Post. Fees are the same as those at the retail counter. The Postal Service increased online insurance coverage from \$200 to \$500 this year.

### B. CONFIRM SERVICE

CONFIRM uses Postal Alpha Numeric Encoding Technique (PLANET) barcode to provide First-Class Mail, Standard Mail, and Periodicals mailers with the ability to track their outgoing mail and incoming reply letters and flats with near real-time information as the pieces travel through the mail stream. This enables mailers to make better business decisions. In 2005 the Postal Service continued to work with the mailing industry to make CONFIRM service more robust for mailers and the Postal Service. Enhancements included development of a certification program to improve the quality of data for performance measurement; improved ease-of-use Web site and Web-based shared reports used to measure service performance information and data problems; and updated and expanded resources available to customers to learn about service performance and interpreting data.

### C. POSTAL MONEY ORDERS

Postal money orders are a safe, convenient, and economical alternative to sending cash through the mail. They can be purchased from any Post Office or rural carrier. During 2005 the Postal Service developed and launched a "positive pay" system for customers and businesses to check the validity of postal money orders. Financial institutions will be able to use this system to reduce the chances of cashing fraudulent orders.

## 4. Alternative Mail Solutions

NetPost Mailing Online is a suite of Web-based print-and-mail services available at *usps.com/netpost*. These services leverage the Internet to allow consumers and small businesses access to alternative mail solutions. Enhancements made to this suite of services in 2005 include (1) expanding access to traditional services such as Certified Mail, Return Receipt, and Restricted Delivery from home or office desktop computers; (2) providing the capacity for customers who access Internet Change of Address to notify their chosen business or personal recipients of their new address by using NetPost Movers Postcards; (3) providing access to NetPost Premium Postcards, a template-driven service that gives consumers and small businesses access to a simple and straightforward interface for sending high-quality glossy postcards while providing small businesses with a full direct-mail solution that includes everything from choosing an image to choosing target recipients, creating their own message, and printing and mailing without having to leave their home or office; and (4) adding the ability for NetPost CardStore customers to choose and enclose a gift card from nationally known and respected retailers inside their personalized greeting card.

## 5. Package Services

To support the growing customer segment of medium and small businesses, the Postal Service focused on initiatives to improve access, ease-of-use, price, and service.

### A. EXPEDITED SERVICES

Priority Mail and Express Mail volume and revenue grew in 2005 as customers responded to stable rates and initiatives that make it quick, easy, and convenient to use these products. PC Postage and Click-N-Ship contributed to growth as did a partnership with eBay. Requests for Carrier Pickup, which allows customers to make online requests to have prepaid packages collected for free by their carrier the next delivery day, increased significantly in 2005. The prepaid Priority Mail flat-rate envelope was also popular with customers in 2005. As an added convenience, in November 2004 the Postal Service implemented an experimental Priority Mail flat-rate box in two configurations, but with identical cubic capacity, at a price of \$7.70 regardless of weight or distance. As of January 8, 2006, this rate increased to \$8.10, maintaining its relationship to double the flat-rate envelope rate.

### B. CLICK-N-SHIP

Since Click-N-Ship first introduced online shipping on *usps.com*, growth has been continuous. In 2005 revenue was double that of 2004. Customers can create labels with and without postage, save addresses from the convenience of their home or office, and then click on a link to schedule a

carrier pick up saving them time and a trip to the Post Office. Several new features were added in 2005 to increase the value of this online shipping application. Customers can now create up to ten labels at a time, view their shipping history, save addresses, and purchase online insurance. Customers may also now schedule recurring pickups up to 3 months in advance.

#### C. PARCEL SELECT

Parcel Select is the Postal Service's ground, package-delivery product designed for medium-to-large shippers that enter their packages at destination Postal Service facilities. Parcel Select service offers excellent value and service. There were significant developments in the ground market, most notably the acquisition of a key consolidator by FedEx and the merger of two other parcel consolidators. There has been increased focus on maintaining an open dialog with service providers. Quarterly meetings with senior management are held to discuss brand improvement issues such as scanning, service, and manifest accuracy. Service is at an all time high as is the percent of packages entered at the destination delivery unit.

#### D. PARCEL RETURN SERVICES

Direct to consumer online and catalog sales continued to rise in 2005 and with it so has the number of returned parcels. The Postal Service has been able to capitalize on this growth with its convenient line of return solutions such as Parcel Return Service (PRS) and Merchandise Return Service (MRS). PRS, a work sharing returns program, has been eagerly adopted as merchants appreciate the value of offering a quick, easy, and convenient return service. In 2005 PRS expanded into the Return Delivery Units which is now active in 50 districts and expansion is expected to continue. This allows shippers to pick up returned packages at the same delivery unit where the packages were first entered for delivery.

#### E. HOLD FOR PICKUP

Late in the year the Postal Service implemented the Hold for Pickup endorsement in response to requests by the mailing industry. This enhancement is designed to meet the unique needs of parcel mailers who ship high-value goods and either do not want the goods delivered to the customer's door or prefer to give the customer the option to collect the parcel at the Post Office. Hold for Pickup was implemented as an endorsement for the Postal Service's Parcel Select service but will expand to additional services where applicable to meet customer needs.

#### F. COST REDUCTION INITIATIVES

The Postal Service continued to focus on reducing costs that support package service products. Efforts include managing the expenses of packaging supplies, which resulted in significant cost reductions, and coordinating actions to improve

mailer parcel barcode quality. Another program, through which Express Mail Corporate Account (EMCA) customers pay for their postage by credit card, was created to enhance service and increase financial controls. Customers are opening new accounts and many trust accounts are converting to the EMCA.

## D. International Mail

### 1. Volume and Revenue

Due to continued economic growth, weight per piece growth, and rate stability, international mail revenue increased 4.1 percent in 2005. Services that saw significant revenue growth included Global Express Guaranteed, Global Express Mail, Global Priority Mail, and Global Air Parcel Post. No rate adjustments were implemented in 2005. To the extent possible, the targeted increase is 5.4 percent, consistent with the domestic rate change. As of January 8, 2006, international rates will increase 5.9 percent on average.

### 2. Improving International Services

The Postal Service continues a multiyear process of improving the reliability and features of its expedited and package service offerings, providing date-specific delivery and focusing on the most important geographic segments of the market. Effective December 2004 the Postal Service switched delivery providers in Europe from GLS Holdings of Royal Mail to individual foreign postal administrations. In July 2005, the Postal Service launched a date-certain service for Global Express Mail to major Asia-Pacific destinations. These efforts have resulted in revenue growth of 22 percent for Global Express Mail and 15.7 percent for Global Air Parcel Post services in 2005.

Currently, the Postal Service is working with select Asian Posts to increase service performance quality to industry standard levels, including commitments to perform mandatory scanning and improve postal operations efficiencies for Global Air Parcel Post.

### 3. State Department Coordination/UPU Congress

The Postal Service worked with the U.S. Department of State to represent the United States in the Postal Operations Council (POC) of the Universal Postal Union (UPU) during January 2005. Eighty-nine countries attended this session.

One of the main functions of the POC — in addition to approving the structure, chairpersons, and work plans of over 30 POC bodies — was to adopt new Letter Post Regulations and Parcel Post Regulations. The POC session considered nearly 400 proposals. It adopted decisions on numerous technical issues including barcode requirements for accountable mail, electronic messaging for the exchange of mail, claims and inquiry procedures, statistics and accounting procedures, and the use of a universal mail-bag. The United

States was particularly successful with its own proposals: of 19 proposals submitted, 16 were adopted, none were rejected, and three were referred for further study. Of the 400 proposals considered, 325 decisions were made and 75 were referred for further study. Of the decisions made, 275 favored the U.S. position and 50 were against the U.S. position.

The POC chairman, the Postal Service vice president of International Business, is pursuing a new results-based approach for managing the work of the POC towards improved management processes necessary to align strategies with structures and management systems such as performance measurement, budgeting, strategic planning, and communications. Under this approach, the POC will review the UPU resolutions, UPU objectives, programs of the Bucharest World Postal Strategy, and the draft 2005–2006 Program and Budget. Necessary alignment can then be accomplished throughout the entire structure of the UPU: the International Bureau (IB), the Council of Administration (CA), and the POC. The goal is to establish joint accountabilities for all three bodies and provide greater transparency in the implementation of programs. The Postal Service was also successful in gaining a leadership role in several groups key to furthering its priority objectives.

In addition to POC-related activities described, the Postal Service is coordinating implementation of 2004 UPU Congress decisions across its functional areas.

## E. Mail Distribution

### 1. Automation Activities

The Postal Service continues to automate mail distribution operations to improve efficiency and reduce costs. The foundation of this effort is barcode technology, which includes barcoding mail, processing barcoded mail in automated operations, and adjusting the workforce as necessary to capture savings.

#### A. LETTER MAIL AUTOMATION

In 2005 the Postal Service continued to improve automated processing of letter mail through deployment of additional hardware and software.

Letter mail address recognition rates continued to rise as additional hardware and software upgrades were deployed for existing multi-line optical character reader (MLOCR), Delivery Barcode Sorter Input/Output Sub-System (DIOSS), and remote computer reader (RCR) equipment. Improvements were deployed to 342 mail processing centers under the Letter Recognition Enhancement Program (LREP) and via Advanced Facer Cancellor (AFCS)-OCR deployment. LREP is an incentive-based program where the supplier is paid based on the incremental performance improvements achieved. LREP improvements deployed this year raised the letter mail

encode rate to more than 91 percent while slightly reducing the error rate.

The AFCS-OCR program connects the existing RCR to the AFCS. The AFCS culls, faces, and cancels letter mail through a series of automated operations. It enables the on-line sortation of letter mail to either local or outgoing destinations and reduces downstream mail handlings.

Another enhancement currently being evaluated uses an additional database that is expected to improve address coding to high rise buildings and firms. Pilot testing was completed in May 2005 and deployment is anticipated to begin in mid-2006. Future improvements are projected to yield an additional 2–3 percentage point increase in the overall system encode rate by late 2007. Recognition rate improvements are also planned for over 9 thousand wide field of view cameras that started deployment on all barcode sorters in early 2004. Deployment was completed in December 2005.

The DIOSS machine is a further advancement of delivery barcode sorter (DBCS) technology that includes OCR and input/output subsystem capability. This allows automated processing of mail that currently requires manual distribution. Deployment of 395 of these systems is expected to begin in 2006. As a result of this program, 646 MLOCRs have reached end-of-life and will be removed from service. They have electronic components that are either already or soon will be obsolete. Components that are reusable as spare parts will be salvaged and sent to the parts depot in Topeka, Kansas.

Deployment of 1,632 additional DBCS stacker modules was completed in December 2004, seven months ahead of schedule. These modules enable an increase in delivery point sequenced mail by providing additional depth-of-sort on the DBCS machines and capacity for the growing number of delivery points.

#### B. FLAT MAIL AUTOMATION

The Flat Identification Code Sort (FICS) program applies an identification (ID) tag to each nonbarcoded flat and saves the address encoding result from the OCR or the remote encoding center (REC). Deployment of FICS was completed in June 2005 on all 534 automated flat sorting machines (AFSM) 100. FICS reads the ID tag and sorts the mail using the saved ZIP Code information. By eliminating multiple keying of the same images at the REC, FICS helps to further automate flat sorting operations. It also supports future efforts in flat delivery point sequencing and Intelligent Mail, making information about mail status more available to customers.

The Flat Recognition Improvement Program (FRIP) is increasing recognition rates and lowering error rates on the AFSM 100 and the Upgraded Flat Sorting Machine (UFSM) 1000. The result is fewer misdirected flats and better customer service. During 2005 AFSM recognition rates

improved by more than 2 percent while error rates were reduced by 0.4 percent. UFSM recognition rates for general mail improved by more than 1 percent while error rates were reduced by 0.4 percent. Recognition rates for newspapers increased by 45 percentage points while error rates were reduced by 6 percent. Incremental improvements to further enhance the read rates and error rates on both the AFSM 100 and the UFSM 1000 are planned to begin in late 2005.

The Automatic Tray Handling System (ATHS) is increasing AFSM 100's capabilities and reducing the labor required. It replaces the tray take-away conveyors on the original AFSM 100 with more elaborate fixed mechanization. Each ATHS automatically ejects full trays onto the transport conveyor and produces a properly labeled empty tray to replace the one just dispatched. When the run is completed, the ATHS will systematically dispatch all of the required trays and label and insert a new set of trays for the next sort plan. Deployment of 354 ATHS began in June 2005 and is expected to be completed in June 2006. Further deployment of ATHS to the balance of the AFSM 100s is being considered.

Deployment is planned of a fully automated feeding system for the AFSM 100, called the Automatic Induction system. It uses ergonomic work stations to prepare flats in automation-compatible trays. A mechanical tray handling system transports these trays to the AFSM 100 feed stations where the mail is automatically inducted without operator intervention. The first article test was completed at the end of September 2005. Deployment began in late October 2005 and is expected to be completed in September 2006.

### C. PARCEL AND BUNDLE AUTOMATION

The Automated Package Processing System (APPS) is the Postal Service's next generation machine for sorting parcels and bundles of mail. It is replacing the older, more labor-intensive small parcel and bundle sorter. APPS automates package distribution and provides greater processing capacity through automatic package induction, singulation, and address recognition using an OCR/barcode reader/video coding system. The high throughput requirements (up to 9,500 pieces per hour) are supported by automated container unloading. The system also collects detailed information about each package, such as type, size, and weight; and supports in-route tracking of Delivery Confirmation codes. Deployment of 74 APPS machines began in 2004 and will be completed in 2006.

## 2. Remote Encoding

The automated distribution of mail relies on barcodes that represent the mailing address. The Postal Service translates the address and applies the barcode on pieces that are not pre-barcoded by the mailer. When all computer-based means of coding an address have been exhausted, an image of the address is sent to the remote encoding center (REC) where operators manually key the address information. The results are transmitted to the facility that has the mailpiece, thereby keeping it in the automated mailstream.

During the past several years computer-based image recognition improvements have been realized which significantly reduced the amount of images requiring manual keying at the RECs. As a result, the Postal Service has been able to reduce the number of RECs in the national network from a high of 55 in 1998 to only 15 today. Additional image recognition improvements are expected over the next few years which will allow the continuation of the REC consolidation effort. Three more RECs will close in 2006. Letter and flat mail image volumes continue to decrease as improvements are deployed, while ongoing deployments of APPS machines and the Postal Automated Redirection System (PARS) are providing new images to the RECs. The keying requirements for each are different and the REC handles them as separate operations.

The Postal Service is pursuing the integration of letter and PARS image coding operations as part of a larger effort to develop a replacement for the end-of-life image processing subsystem for letters. The Remote Encoding System (RES) will enable unresolved mailpiece images to be sent from a facility to multiple REC sites instead of just one designated REC as is done today. The RES architecture will be flexible to accommodate different requirements at small, medium, and large facilities. A funding decision for RES development is expected during 2006.

## 3. Process Improvements

### A. SORTING TECHNOLOGY

The Integrated Data System (IDS) continuously collects data from all mail processing equipment in a facility. It allows applications to leverage equipment performance, statistics, and mail tracking data to better manage equipment performance, and thus improve productivity and reduce operating costs. The data collected also provides more accurate information on mail volumes and equipment utilization. More precise information by destination and availability for dispatch make it possible to reduce transportation costs. Equipment data also provide the basis for activity-based costing models which can be used to better control operating costs.

## Chapter 2 Postal Operations

In 2005 the Postal Service tested and deployed modifications to its bulk mail center sortation equipment software to provide management reports and displays. IDS software enhancements to handle the Intelligent Mail initiatives and mail tracking services were also deployed. The Surface Visibility program is also leveraging the IDS infrastructure by using its database resources and unit load scan information collected from material handling equipment.

### B. UNDELIVERABLE-AS-ADDRESSED MAIL

The Postal Automated Redirection System automates the handling of undeliverable-as-addressed (UAA) letter mail, intercepting a portion of it in the early steps of the distribution process to reduce handling and processing costs and improve service. The system electronically notifies mailers who subscribe to the Address Change Service and provides hard copy notification to mailers who add an endorsement to their mailpiece. Both services generate revenue. The system also automates the processing of change of address forms that were previously processed manually via mechanized terminals.

During 2005 the Postal Service completed PARS Phase I deployment to 50 processing plants, 15 RECs, and all associated delivery units. The Change of Address Forms Processing System, which automates the processing of change of address forms, was also implemented and provided scanning equipment to all 87 central forwarding sites.

The PARS Phase II Program is expected to cover most of the remaining UAA letter mail by deploying PARS to 233 additional processing plants and their associated delivery units. Deployment started in August 2005 and is expected to be completed in September 2007.

### C. ADVANCED FACER CANCELLER SYSTEM DOUBLES DETECTOR AND INK JET CANCELLER UPGRADES

When mailpieces are double-fed or become attached together on automated processing equipment, the mailpiece identification code on the back of the pair will not match the address on the front, and subsequent additional handling is required to correct the error. The Doubles Detector for the AFCS will reduce the associated re-handling and remote keying requirements and improve delivery performance. The Doubles Detector First Article Test was successfully completed in April 2005, and deployment on all 1,083 AFCS machines was completed in November 2005.

The AFCS Ink Jet Canceller (IJC) system will replace the current hub and die canceling mechanism with an ink jet printer. This upgrade provides many benefits: it is more reliable and requires less maintenance; it automates date setting and introduces a time stamp to enhance mailpiece tracking, tracing, and security capabilities; it provides flexibility in the cancellation appearance and content without

the need to manufacture, deploy, and inventory new dies for each different cancellation mark; and it creates potential marketing opportunities. The first article test was successfully completed in February 2005, and deployment on all 1,083 AFCS machines began in July 2005 and is expected to be completed in July 2006.

### D. BUSINESS MAIL ACCEPTANCE

The Postal Service automated the labor-intensive process of evaluating bulk mailing eligibility for work-sharing 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 the mailer with images of preparation problems to support process improvement. MERLIN has proven to be a vital factor in improving mail quality.

Another innovation is the *PostalOne!* system which provides business customers with a single point of electronic access to detailed mailing, payment, quality, and other postal and mailing information frequently requested. Migration of the acceptance unit and business reply user functions of the legacy PERMIT system into the new *PostalOne!* system was completed in 2004. In 2005 the Postal Service implemented acceptance and processing of electronic postage statements for Standard Mail mailings from the largest business customers.

The Postal Service continued support of *PostalOne!* Transportation Management where large mailers assign transportation to First-Class Mail letter trays in their own production facilities. The Postal Service continued testing and adding customers to the Electronic Verification System (e-VS) program which facilitates acceptance and verification of Parcel Select manifest mailings.

## 4. Material Handling

The Postal Service continues to deploy new material handling technology to increase efficiency and reduce costs. Development and production activities during 2005 included equipment for receipt, dispatch, and material transport operations within processing plants.

Deployment began for the Integrated Dispatch and Receipt (IDR) program into existing material handling systems at 229 mail processing facilities. IDR consists of ten different machines that automate functions associated with letter tray and flat tub preparation and tray transport equipment and will streamline the flow of materials. IDR will reduce costs in incoming and outgoing dock operations and in receipt and dispatch operations. Detailed designs were completed for IDR sites and installation is underway. Deployment will be completed in 2007.

A program is being designed to transform material handling systems in many larger processing facilities to better align processing capacity to the needs of the current and future processing network. Implementation is planned for 2006 to 2008.

To support the planned network changes, deployment began for a new generation of high-speed tray sorters that will automate letter tray sortation at large plants and transportation hubs. The Postal Service also worked on the development of new equipment to automate the unloading of trays from mail transport equipment.

During 2005 installation began on a system to facilitate the safe and efficient management of powered industrial vehicles, such as forklifts and tuggers. Capital funding has been approved to support an additional 35 to 40 sites above the 22 created in 2005.

## 5. Support Systems

The Postal Service continues to focus on improving the efficiency and effectiveness of critical transportation support systems and replacing or eliminating obsolete systems.

Transportation Optimization Planning and Scheduling (TOPS) is a system designed to plan and optimize the transportation network. TOPS will plan the movement of all mail traveling on all modes, contracted or postal, and is designed to perform both long-range and week-to-week transportation optimization planning and analysis. Approval to complete the full implementation of TOPS was received in 2005. TOPS will begin providing output to help reduce transportation costs in 2006.

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, a central visibility database was created to receive assignment data from the Surface Air Management System and scan data from Postal Service facilities and from transportation suppliers. In 2005 SASS began reconciling payment for international air carriers using scans received from these suppliers to measure performance.

## F. Delivery Unit Operations

Delivery operations is the Postal Service's single largest cost center, accounting for 43 percent of all expenses. Further, approximately 2 million new delivery points are added to the network each year. Table 2-3 shows the total number of delivery points at the close of 2005. A number of strategies and programs to control growth in delivery costs are described in the following sections.

## 1. Delivery Point Sequencing

Delivery point sequencing is the arrangement of mail in the order that deliveries are made by the carrier. Currently, 77 percent of letters are distributed to delivery routes in delivery point sequence. The Postal Service has an objective to increase this to 95 percent of letter mail by 2010 and to aggressively pursue the sequencing of flat mail. Today more than 13 thousand delivery units receive letter mail in delivery point sequence. These units account for more than 99 percent of all city routes and 78 percent of rural routes.

**Table 2-3 Total Number of Delivery Points — 2005**

(millions)	
Delivery Type	Number
City	85.8
Rural	36.2
Post Office Box Service	20.0
Highway Contract Route	2.3
<b>Total</b>	<b>144.3</b>

### A. FLATS SEQUENCING SYSTEM

During 2005 the Postal Service continued evaluating and developing two alternative strategies aimed at fully automating the flat mailstream: a Flats Sequencing System (FSS) and Delivery Point Packaging (DPP).

FSS would complete the automation of flat mail by sorting it into carrier-walk sequence, similar to the process used for letter mail for over a decade. Presently, flat mail is sorted only to the zone (i.e., ZIP Code) and carrier level. This mail then must be sorted manually into delivery order by the carrier prior to beginning deliveries for that day. FSS would significantly reduce this labor intensive process for high flat-volume zones and routes.

Unlike letter mail, which is fairly uniform in size and address location, flat mail covers a broad range of sizes and has highly variable address placement. Advanced mail handling technologies must be developed, refined and/or adapted to allow for the automated sequencing of this diverse mailstream.

At year end, the prototype FSS, having successfully completed the in-plant testing requirements, was being disassembled for shipment to Indianapolis for extended field testing. This prototype system includes such advanced mail handling technologies as automatic feeding, sweeping, and container loading. If prototype field testing is successful, a production contract could be awarded in late 2006 and production deployment could begin in 2008.



### B. DELIVERY POINT PACKAGING

In addition to the FSS activities, the Postal Service completed its evaluation of DPP concepts. DPP would combine letter and flat mail into one package and sort it into delivery sequence. A DPP strategy would almost eliminate carriers' in-office sorting time, reduce mail handling time during delivery, and provide more street time for the carrier to deliver mail to more addresses.

Four equipment DPP concepts were developed and simulated but none of them were deemed mature enough for further development at this time. Therefore, the Postal Service suspended the DPP concept development in 2005 in favor of the FSS platform.

### 2. Carrier Optimal Routing

This city carrier routing and travel optimization program, which is similar to those used by private sector delivery firms, is currently being utilized at numerous performance clusters across the country.

The Carrier Optimal Routing (COR) system is a computer program that uses algorithms to configure compact, contiguous, safe city carrier routes. It also uses algorithms and actual volumes from the city carrier route examinations to create efficient travel paths for city carriers while reducing park points and relays. COR was utilized successfully in over one hundred city carrier zones during the Spring 2005 adjustment period. COR is currently compatible with Delivery Operations Information System (DOIS) and receives delivery and route adjustment files directly from DOIS to complete route adjustments. COR Version 1.3 was deployed in July 2005 and it includes several enhancements.

### 3. Electronic Publication Watch System

The electronic Publication Watch (ePUBWATCH) system replaced the existing paper-based publication watch in those delivery units with computers. ePUBWATCH is a tracking tool and resolution system for Periodicals. Registered publishers can enter a subscriber's delivery-related complaint and request an electronic publication watch. After the subscriber's second complaint, an ePUBWATCH request is generated. In addition, by completing complaint resolution worksheets, publishers can also receive assistance from one of the area or district Periodicals service improvement coordinators. The third year in operation resulted in a steady increase in the number of registered publishers.

### 4. ADVANCE Notification and Tracking System

The ADVANCE Notification and Tracking System (ADVANCE) is a Web-based application developed to facilitate the delivery and tracking of qualified Periodicals and Standard Mail with specific in-home delivery windows. Delivery units receive advance notification of a mailing and must report when the mail is located at their delivery unit, when delivery begins, and when delivery is completed. Advance notification of time-sensitive mailings gives delivery units the opportunity to make any adjustments necessary to meet customer needs. ADVANCE provides delivery performance reports to mailers as well as confirmation of delivery to Postal management and mailers to ensure mailing requirements are met. In 2005 6.5 billion mailpieces were tracked using ADVANCE, which represents a 12 percent increase compared with 2004.

### 5. Collection Point Management System

The Collection Box Management System was replaced by the Web-based Collection Point Management System (CPMS). This Web-based system provides a monitoring tool for delivery unit managers to ensure adherence to 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 is collected by the mobile data collection device and allows management to quickly ascertain the status of each collection point. The deployment of the CPMS in 2005 eliminated 116 administrative sites responsible for the collection and forwarding of scanned data from field sites to the mainframe in San Mateo.

### 6. Mail Security

The Postal Service transformed the High Security Cluster Box Unit Program by working with manufacturers to redesign the units to increase the level of security and reduce the unit price. The Inspection Service recommended that 12 specific postal districts receive the new units based on a review of reported mail theft statistics. Subsequently, the Postal Service purchased 5,500 units for deployment to 10 of those districts. The new unit meets stringent security performance standards and will be more resistant to pry attacks and tampering. These units will be deployed in the Southeast and Southwest Areas as replacements for those destroyed by Hurricanes Katrina and Rita.

In 2005 the Postal Service launched the Intelligence Sharing Initiative Web site. The Web site is part of a strategy to further enhance mail security cooperation between the Postal Inspection Service, financial institutions, and major mailers.

## G. Stamp Services

The Postal Service stamp program highlighted a wide variety of subjects to satisfy customers' preferences and mailing needs. The Citizens' Stamp Advisory Committee, which evaluates proposals for new stamps, received more than 50 thousand stamp topic suggestions during the year.

### 1. Stamp Program

The 2005 stamp program consisted of 25 new issues and 105 separate designs. It featured a number of prominent Americans, including singer Marian Anderson, actor Henry Fonda, tennis star Arthur Ashe, President Ronald Reagan, songwriter Yip Harburg, four distinguished United States Marines, and the man behind the Muppets, Jim Henson.

Stamps also commemorated key moments of the Civil Rights movement, the importance of health initiatives for children, and Latin music and dance. These miniature works of art also showcased spring flowers, constellations, architecture, Rio Grande blankets, aviation, Disney characters, and sporty cars of the 1950s.

Nationwide philatelic product sales, which are collectibles featuring stamps, surpassed \$47 million for the year. Some of these unique products included the *2004 Commemorative Yearbook*, the Lunar New Year Collection, Expressions of African Americans, A Cultural Diary, the Ronald Reagan folio, Garden Bouquet stamped stationery, and stamp-related prints.

### 2. Production Activities

The Postal Service and its suppliers continued to realize savings by adjusting stamp production and inventory requirements in conjunction with declines in single-piece First-Class Mail volumes. Stamp production costs decreased from \$88.5 million in 2004 to approximately \$82 million in 2005. Of the 39 billion stamps produced in 2005, 3.5 billion were nondenominated stamps produced to prepare for the January 2006 change in postage rates.

In 2005 the Bureau of Engraving and Printing (BEP) stopped producing postage stamps. The final year of the interagency agreement between BEP and the Postal Service, in 2006, will be devoted to clearance of the BEP's stamp vaults and stamp-related equipment.

### 3. Stamp Fulfillment Services Activities

Stamp Fulfillment Services manages a national order processing center to fulfill stamp and philatelic orders received by mail, telephone, and through the Internet. Since 2002, orders have grown from 1.2 million to 2.5 million per year. Annual sales surpassed \$240 million in 2005. The

online Postal Store continues to attract new customers who value the convenience of stamp delivery to their mailboxes.

In 2005 the Postal Service introduced a new and unique collectible called Digital Color Postmarks. The program, which provides collectors with Postal Service furnished envelopes featuring a full color first day of issue postmark, will be expanded in 2006 to include postmarks for envelopes submitted by customers.

## H. Licensing

Licensing protects, manages, and develops the intellectual properties and licensing opportunities that best represent the postal brand. Licensing experienced 28 percent net revenue growth in 2005. This increase can be attributed to a better organized and sophisticated Official Licensing Retail Program. The Licensing Program had annual royalty revenue of almost \$4 million in its first full year of operation. In 2005 the Postal Service evaluated and improved licensing processes and benchmarked them against best-in-class practices.

## I. Service and Market Development

### 1. Commercial Sales

The Postal Service's Sales organization has a one-to-one relationship with nearly 50 thousand large, sophisticated customers, and it continues to make significant progress towards being a world-class selling organization that anticipates customer needs and crafts solutions customers will buy. In 2005 the Postal Service focused on installing a standardized sales management process, realigning sales management, expanding skills training, and increasing sales support tools.

Today, field sales teams are better equipped than ever before to target opportunities, have effective engagements, and close sales. As a result, commercial revenue performance, customer satisfaction, and field sales readiness assessment performance have improved. In 2005 more businesses chose the Postal Service as part of an integrated business strategy to attract new and repeat customers, to build their brand in the mailbox, and to ship their merchandise and important business documents.

The Sales organization continues to focus on people, process, and performance to increase the Postal Service's ability to meet customer needs and win their business. Incremental improvements in sales management, effectiveness, and skills are key components to achieving business objectives in 2006 and beyond.

### 2. Business Service Network

The Business Service Network (BSN) provides customer service to the Postal Service's largest business customers, who represent more than \$39.6 billion in total revenue for National and Premier Accounts or 57 percent of total revenue for 2005. In 2005 the BSN focused on driving user adoption of its customer relationship management application, improving data quality, and increasing customer satisfaction. As a result, 5.5 percent more customers contacted the BSN in 2005. There was more than a 50 percent increase in the number of customers registered to use the online service. BSN results in 2005 exceeded the prior year's Customer Satisfaction Index for National and Premier Account customers.

### 3. Customer Relationship Management

The Postal Service continues to build applications and best practices to improve the quality of information about its customers' needs and use of the mail. During 2005 more than 20 separate customer information systems were integrated within a common customer identification system, which vastly improved the completeness and accuracy of customer information. A second initiative was the introduction of Customer Registration, which gives large mail volume customers access to online postal services with a single logon ID. As a result, the Postal Service added more than 7 thousand new users to its roster, making it easier for these customers to accomplish postal business and easier for the Postal Service to serve them.

### 4. Engaging Employees to Grow Revenue

The Postal Service has achieved initial success with its Customer Connect and Business Connect programs, which equip selected employee groups to identify and develop new business opportunities.

Customer Connect, which began in 2004, asks Postal Service carriers to help identify small businesses that could benefit by increasing their use of postal services. Carrier referrals are provided to sales employees who then meet face to face with customers to better understand their needs and recommend the right mix of products and services. Customer Connect has exceeded expectations for both participation and revenue. In 2005 more than \$69 million in revenue was generated from more than 34 thousand leads that came from approximately 18 percent of carriers. An additional 1,500 participating Customer Connect locations were added in 2005, for a total of 3 thousand offices. Moving forward, the Postal Service will engage more carriers at the existing sites to increase customer awareness and use of postal products.

Business Connect began in May 2005 and encourages postmasters, station managers, and branch managers to help small and medium-sized businesses generate revenue with Postal Service products and services. Postmasters

have always been a vital part of the communities they serve. Business Connect builds on this role by providing them with the tools and training to identify new customers and revenue prospects, make professional presentations about products and services, and establish themselves with these customers as the primary local resource for business growth and success. Since the program's inception, postmasters have generated more than \$35 million in annualized projected revenue with more than 278 thousand businesses through Business Connect. In 2005 over 51 percent of postmasters and station/branch managers participated in a customer activity.

### J. Retail Programs

Most Americans buy and use postal products and services through postal retail outlets. Each day millions of customers visit Post Offices to buy stamps, mail packages, or collect mail from a Post Office box. More Americans, however, are now obtaining stamps or other services through alternate channels — by mail, online, from an Automated Postal Center, and through more than 40 thousand commercial outlets that make stamps available, including supermarkets, convenience stores, and ATMs.

#### 1. Retail Sales

The Postal Service's retail channel provides local access for the core product applications of correspondence and business mailing, domestic and international package shipping, and special services, including delivery through more than 20 million Post Office boxes. The principal customer groups using retail are small businesses and consumers. Total retail revenue for 2005 was \$17.3 billion, almost 1 percent more than 2004.

Approximately 80 percent of all Postal Service retail revenue and 96 percent of all retail operating expenses accrue from counter services provided at Post Offices and at contract postal units (CPU). Alternate access channels, such as self-service stamp vending and *usps.com*, produce the balance.

To provide convenient, one-stop shopping for postal customers, many Post Office locations offer additional products and services, including ReadyPost shipping supplies and U.S. passport applications and photos. New ReadyPost displays capable of holding standard and decorative items were deployed to 3,839 offices and passport services were added to 500 new offices in 2005. ReadyPost revenue grew 13 percent to \$91 million and passport revenue grew 27 percent to over \$140 million.

#### 2. Building Customer Awareness and Satisfaction

Many postal customers are unfamiliar with many of the Postal Service's basic products and services. Addressing this need is central to retail marketing. New menu board signage, containing easy-to-understand product and price information,

was deployed to all Post Offices in 2005. These are supplemented quarterly with updates that highlight products most likely to be used during that time period. Additional signage in support of passport application acceptance boosted sales of this key retail service.

In order to enhance and standardize the customer experience in its retail units, the Postal Service implemented a Retail Standardization process in 2005. This process focuses on best practices in operational efficiency, sales skills and product knowledge, and promotion and merchandising. To support the effort, retail ambassador teams comprised of one retail associate and one postmaster/station manager/customer service supervisor from each district have been trained to assist local installation heads in improving their lobby condition, in-store message placement, and merchandise display. The Postal Service developed a *Retail Standardization Resource Guide/Toolkit* that guides offices through the process.

### 3. Point-of-Service ONE

The vision of the Point-of-Service (POS) ONE retail system is to provide customers, retail associates, and management with the most effective retail sales, service, reporting, and decision support functionality that provides better customer service. The POS ONE system is deployed to approximately 15 thousand locations, providing detailed transaction data for roughly 90 percent of all postal retail sales. Customers at POS-enabled retail locations receive up-to-date information about available products and services and have immediate access to options and price to make better informed decisions. Retail associates receive timely and reliable information regarding new products and services, updates to policies and procedures, and corporate direction. Managers and supervisors have access to performance data that enables them to make more informed decisions regarding day-to-day operations.

POS ONE transactional data is incorporated within the Retail Data Mart (RDM), which provides critical business information and reports used for operations planning, sales, and market analysis. These data and customizable reports are available to managers at multiple levels including, most significantly, at the individual retail unit where local managers can now make much more informed and timely decisions about staffing, scheduling, and hours of operation. During 2005 more than 18 thousand managers and postmasters completed training on the use of the RDM.

### 4. Retail Operations

The focus of the Postal Service's retail operation is the effective and efficient deployment, integration, and operation of customer transactions across all types of retail access. These include full counter services, customer self-service,

services provided through agents, and online options available on *usps.com*.

#### A. eLEARNING INITIATIVES

Using eLearning, the Postal Service's distance-learning platform, training was developed in 2005 for all POS ONE front-line supervisors and district and area managers supporting retail operations. It focused on skills needed to make optimal use of the RDM and the actions supervisors are expected to take based on management reports of RDM information and local performance metrics. The RDM course is the first key application of eLearning for a significant number of field personnel. It allows for the delivery of training at the lowest cost with the capability to match training evaluation to actual on-the-job performance.

#### B. RETAIL ACCESS

The Retail Optimization Access Management System (ROAM) is a geographical information system tool used to identify current postal and non-postal retail locations. It is a decision support tool for the placement of retail service points. This Web-based application can generate demographic reports, market profiles, and retail expenditure reports, as well as calculate driving times. This information assists in improving effectiveness in managing the retail network and optimizing the placement of retail locations. Enhancements to ROAM in 2006 included bringing the application in-house and utilizing Postal Service logon functionality, automating a model to help determine retail requirements based on local market factors, and mapping the user interface.

To better serve customers, the Postal Service extended retail hours at approximately 1,435 retail locations beginning in October 2005.

#### C. WEB BOX ACTIVITY TRACKING SYSTEM

The Web Box Activity Tracking System (WebBATS) is a Web-enabled centralized database system that improves the access, speed, and reliability of tracking Post Office box service. It also supports marketing to areas with high box vacancy rates. In 2005 requirements were established to incorporate WebBATS within the POS One retail system used to process most counter transactions and the self-service Automated Postal Center kiosk. WebBATS provides a foundation for future expansion to include Internet access, which would allow the Postal Service to offer customers the convenience of reserving and renewing a Post Office box online. Online rentals and renewals will be more cost effective than retail counter transactions.

### 5. Retail Alternative Access

During 2005 the Postal Service continued communications efforts designed to build customer awareness of the many

convenient options that exist for buying stamps and performing other basic retail transactions. Conducting postal business online or by self-service helps control postal operating costs and greatly enhances customer convenience by expanding the times and locations that service is available.

### A. USPS.COM

The Internet has enabled the Postal Service to transform communication and business processes and create opportunities to improve efficiency, enhance relationships, and create new customer solutions. In 2005 the Postal Service continued to use Internet technology to provide products and services that meet the varied needs of business and consumer customers.

The Postal Service's Web site, *usps.com*, has grown into a vital business channel, broadening access to products, services, and information. In 2005 *usps.com* received 278 million visits, 9 percent more than 2004. Continued growth in visits and transactions helped the channel reach, \$272 million, which amounts to 1.6 percent of retail revenue. *usps.com* also contributed an estimated \$498 million in cost avoidance and indirect revenue (sales enabled by *usps.com* but recorded elsewhere). Much of the Web site's growth can be attributed to efforts to make shipping online easier. Enhancements to the homepage and customer segmented doorways have driven growth by making it easier for customers to find products, services, and information.

### B. AUTOMATED POSTAL CENTER

The Automated Postal Center (APC) is a low-cost kiosk alternative to the retail counter that provides customers with convenient access to postal services that retail customers most frequently buy. Most APCs are available 24 hours a day, 7 days a week. The Postal Service deployed 2,500 APCs in postal locations between April and November 2004. During 2005 approximately 1.6 percent of retail revenue was generated by APCs. Retail sites with APCs have been able to reduce wait time in line and have slightly higher CSM scores. In 2006 the Postal Service will test various configurations and will continue to move some machines to sites with more opportunity.

### C. STAMPS BY MAIL

Many customers use Stamps by Mail to order postage and have it delivered right to their mailbox. In 2005 Stamps by Mail sales were \$235 million. Although this program has been in existence for many years, customer awareness is still relatively low. The Postal Service will continue to feature the advantages and convenience of Stamp by Mail.

### D. STAMPS ON CONSIGNMENT

Approximately five percent of the Postal Service's total retail revenue is generated from the stamps on consignment program, which makes First-Class Mail stamp booklets available in commercial venues such as ATMs and supermarkets. The program benefits retailers by generating customer traffic while allowing customers to combine common tasks in one trip. Future plans include expansion of this convenient service to other retailers who have not formerly considered making stamps available to their customers.

### E. CONTRACT POSTAL UNITS

Contract postal units (CPUs) allow the Postal Service to reach customers at times when a trip to a Post Office is not possible or convenient. Typical CPU host locations are drug stores and supermarkets, and many feature evening, weekend, and holiday hours. The convenience store industry is the fastest growing segment of the CPU program with over 100 locations in operation in 2005. Contract Postal Unit Technology (CPUT) is a new Web-based system that now contains information on all CPU contracts and facilitates contract payments. CPUT records and tracks sales and will interface with the Postal Service's Retail Data Mart. A new weighing and rating system that automates the selling of postal services is now allowing postal managers to obtain transactional level data from the over 150 CPUs now using this equipment.

### F. POSTAL SERVICE APPROVED SHIPPER

During 2005 the Postal Service developed the Approved Shipper program to improve the quality of postal information given to customers by third-party retail establishments. Unlike CPUs, these retailers do not provide services under contract with the Postal Service and receive no compensation. However, they routinely accept letters and packages and tender them to the local Post Office on behalf of their customers. The Approved Shipper program provides participating retailers with standard product information and signage, which helps protect the Postal Service brand, improve compliance with aviation security procedures, and minimize the incidence of inaccurate information on postal services and prices. To participate in the program, retailers must sign a license agreement defining terms and conditions. Participation is subject to the approval of the local Postal Service district. The Postal Service began a pilot of the Approved Shipper program at 30 sites in the Southwest Area in 2005. National roll-out is scheduled for 2006.

### G. POSTAGE TECHNOLOGY INITIATIVES AND SECURE ELECTRONIC SERVICES

Postage meters and PC Postage products offered by commercial providers provide an alternative access channel for all customers — from households to national accounts. These products make it more convenient for customers to mail with

the Postal Service by integrating services such as insurance and Delivery Confirmation with postage payment, and by making it easier to print shipping labels and account for postage paid.

The number of choices for customers continued to increase in 2005 with the introduction of new products and enhancements. Enhancements include new support for international mail and the introduction of a second postage product that provides sheets of stamps that customers can print on their computers and use at their convenience. PC Postage technology also supported enhancements to Web-based services, such as eBay and Click-N-Ship. The popularity of the PC Postage channel is evidenced by a 48 percent increase in revenues and a 21 percent increase in registered users compared with the previous year. PC Postage represented more than three percent of retail revenue in 2005.

The major addition to the postage meter channel in 2005 is the first information based indicia (IBI) product targeted to production mailers. It produces what is referred to as an "IBI Lite" barcode. IBI Lite requires less ink, which reduces costs while still achieving the benefits and security of the latest technology.

A 1-year market test of Customized Postage was launched in May 2005. Customized Postage utilizes PC Postage technology to allow customers to create personalized postage by uploading a digital image that can be printed with IBI. This service is provided directly to Postal Service customers by authorized companies and allows the customer freedom of choice and the benefit of competition in the marketplace. In 2005 customers bought 3.8 million personalized postage images.

Providing customers with the choice to use these channels is accomplished by working with commercial providers. This business model allows the Postal Service to reduce or eliminate capital investment while providing opportunities for cost savings, cost avoidance, revenue generation, and mail security.

## K. Pricing and Classification

The Postal Service continues to pursue innovation in pricing and has adopted a pricing strategy that customizes and simplifies rates and requirements, and promotes pricing that better represents the value derived by customers. In embracing this strategy, the following initiatives were developed or implemented in 2005.

### 1. Negotiated Service Agreements

During 2005 the Postal Service successfully litigated three NSAs, implemented two, and submitted a new baseline NSA before the Postal Rate Commission (PRC). A NSA is a

customized mutually beneficial agreement between the Postal Service and a customer to increase mail volume, enhance mail preparation, and reduce Postal Service costs when possible. The Postal Service used the Capital One NSA filed in 2002 as its precedent to develop functionally equivalent agreements with Discover, Bank One (now JP Morgan Chase or Chase), and HSBC.

The Postal Service filed the Bookspan NSA with the PRC in July, the first baseline for Standard Mail. The NSA will provide Bookspan incentives to increase its use of Standard Mail letters to solicit members for its book clubs. If approved, the Postal Service would receive revenue generated by increased Standard Mail volumes and additional revenue from the volume generated by new club members. The Bookspan NSA seeks to establish important precedents by establishing volume-based pricing without associated cost savings, and by extending NSAs into Standard Mail.

### 2. Priority Mail Flat-Rate Box

The Postal Service continued the 2-year experiment for the Priority Mail flat-rate box implemented in November 2004. Available in two shapes, each with the same cubic capacity, the box is priced at \$8.10 as of January 8, 2006, regardless of the actual weight or destination of the parcel. Providing flat-rate options offers customers the convenience of determining shipping costs in advance without scales or zone-based rate charts. The Priority Mail flat-rate box is easy to use and provides an additional easy to use option for retail and business customers.

### 3. Repositionable Notes

In April the Postal Service implemented the 1-year experiment for Repositionable Notes (RPNs) placed on the outside of letter and flat mailpieces. RPNs provide customers the ability to complement their First-Class Mail, Periodicals, and Standard Mail, with removable messages to their customers and potentially to generate higher response rates to their mailings. RPNs can be used as another means for mailers to advertise a product or service directly on a mailpiece.

### 4. Premium Forwarding Service

In August, 2005, the Postal Service launched Premium Forwarding Service (PFS) as a 2-year experiment to provide an option for customers who are temporarily away from their primary residences for a minimum of 2 weeks and up to 1 year to have most of their mail shipped each week via Priority Mail to their temporary address. Designed to replace informal or "snowbird" forwarding arrangements previously offered by some Post Offices, weekly PFS mailings are prepared by the customer's primary Post Office and shipped to the customer's temporary address. Since its launch through the end of 2005, PFS acquired 4,393 customers and more than \$321

thousand in revenue. On average customers enrolled for 6.9 weeks of service. The Postal Service expects PFS to increase in popularity during the winter months.

### 5. Parcel Return Services

Parcel Return Services (PRS) allows participating mailers to retrieve returned parcels in bulk from designated postal facilities providing them with additional convenience and cost savings while benefiting the Postal Service by reducing costs. By the end of 2005, PRS was available at 1,500 postal facilities including bulk mail centers and delivery units located in 50 districts. PRS, launched in October 2003 as a 2-year test, generated over \$25 million in 2005, almost double last year's volume of new package business. The Board of Governors approved a filing for a permanent service to be brought before the Postal Rate Commission in September 2005.

### 6. Co-palletization Drop Ship Incentives

The Postal Service continued the Co-palletization Drop Ship Incentives experiment which attempts to control the cost of Periodicals processing by offering mailers additional discounts that encourage the use of pallets and drop shipping. The experiment encourages smaller circulation publications to co-palletize and drop ship their mail and gain discounts otherwise accessible only to larger circulation publications. Handling mail on pallets instead of in sacks is more cost efficient for the Postal Service. The experiment is scheduled to run through October 3, 2006.

### 7. Domestic Mail Manual Redesign

In March the Postal Service released the redesigned DMM 300, now called *Mailing Standards of the United States Postal Service: Domestic Mail Manual*. The purpose of this redesigned DMM is to make it easier for larger customers and employees to locate all information needed to make workshared mailing decisions. Information is organized primarily by class of mail in an easy-to-use manner to assist large mailers in finding sections that are applicable to their business. New charts, illustrations and navigational tools were also added. As the DMM is revised, standards will be rewritten using the principles of "plain language." The redesigned DMM 100 and 200 exist to make it easier for retail customers and small businesses and organizations to locate information to make mailing decisions.

### 8. Pricing and Classification Service Center

In November 2004, the Postal Service consolidated its three rates and classification service centers and the Nonprofit Service Center into a single unit — the Pricing and Classification Service Center. This will help ensure consistent application of rates and mailing standards for all customers

by providing one source for mail classification decisions and one-stop shopping for customers and field employees with rate application and mail eligibility questions.

### 9. National Customer Rulings

In conjunction with the creation of the Pricing and Classification Service Center, the Postal Service initiated the National Customer Rulings process to provide major mailers with proactive guidance on mail preparation, mailpiece design, and rate eligibility. This new business model proactively seeks out major mailers who are most affected by the nuances in classifications, and offers them a before-mailing consultative relationship that recognizes their national stature. In 2005 through this new process, classification decisions were made on mailings prior to acceptance, streamlining the acceptance process and providing mailers with greater confidence in the quality of planning and budgeting for future mailings.

### 10. Escrow Rate Case (R2005-1)

On November 15, 2005 the Governors voted to accept the PRC's decision to raise most domestic prices by approximately 5.4 percent across the board. The price changes will be implemented on January 8, 2006, and affect all classes and subclasses of mail and extra services. These rate increases are necessitated by the \$3.1 billion escrow requirement imposed on the Postal Service by Public Law 108-18.

### 11. International Price Adjustment

The Postal Service announced the first change in international prices and fees in nearly 5 years. To the extent possible, the proposed overall 5.9 percent increase is designed to be in line with the 5.4 percent across-the-board domestic rate proposal. However, additional adjustments were needed for some services and country groups to ensure that the associated costs are adequately covered. In addition, certain Express Mail and Air Parcel Post rate groups are to be realigned based on operational changes.

Also, as a result of an agreement negotiated by the U.S. government with the Republic of the Marshall Islands and the Federated States of Micronesia, mail destined to those two countries will phase into the international rate schedules. These international changes took effect on January 8, 2006, the same date as the domestic pricing changes.

## L. Technology

Information Technology provides the organization with an efficient, flexible, secure, and accessible information infrastructure. Much of this has been accomplished, and will continue to be accomplished, by simplifying and centralizing information hardware, software, and processes.

### 1. Advanced Computing Environment/Upgrading the Infrastructure

In 2005 the Postal Service continued to enhance its Advanced Computing Environment (ACE), a comprehensive effort that standardizes hardware and software products for all users. Enhancements were made to support the following ACE features:

- Efficient and responsive remote help desk support.
- Rapid deployment of software enhancements, including security virus protection and intrusion detection software.
- Rapid delivery of new products and services.
- Reduced development, maintenance, and support costs.
- Efficient operational oversight through central hosting of applications.

The Postal Service also deployed DVD recorders and players in 2005 to offices with a business need for this equipment. DVD technology enables viewing content on every ACE desktop and reduces costs and storage space needed for VCR tapes. Meeting Place, a new tool built on the ACE platform, provides a Web conferencing service that reduces the need for travel. Rollout of this service began in 2005 and will be completed in 2006.

The Printing and Imaging Environment (PRIME) initiative will standardize the Postal Service printing environment. New services being deployed will allow scanning documents to e-mail and will significantly reduce the number of copiers and fax machines needed. The pilot for PRIME began in 2005 at Headquarters, the Atlanta and Northern Virginia district offices, the Raleigh Information Technology Service Center, and Eagan Information Technology Service Center. The PRIME initiative will be ongoing and will move forward based on the availability of funding and the return on investment for each device deployed.

### 2. Information Technology Security

The Postal Service maintained and enhanced the security of its computing environment in 2005 through several corporate information security initiatives. Over 143 thousand desktop personal firewalls and Intrusion Prevention Services

were deployed to ACE computer users in 2005. The Postal Service also continued to educate the postal community on information security practices via articles, posters, brochures, handbooks, and Computer Security Day.

### 3. Universal Computing Connectivity

The Universal Computing Connectivity (UCC) initiative provides always-available connectivity to the Postal Service computing environment for managers and employees whose jobs require such access. The program involves development of a system-wide network that combines voice, data, and video in a single design. The UCC contract was awarded in October 2004. Under this contract, all telecommunication features and services available to the Postal Service will be upgraded as developments occur in the telecommunications industry.

A key component of UCC is to complete network upgrades particularly in low bandwidth sites to improve system performance when employees are connected to the network. In 2005 the Postal Service upgraded the bandwidth at more than 7,500 locations. Upgrades will continue in 2006. An initiative called QuickConnect is scheduled to deploy in early 2006 to improve speed and performance at sites not yet upgraded.

The BlackBerry wireless communications system provides remote communications capability to more than 5,561 postal managers and Continuity of Operations team members, even when Postal Service facilities are without power or shut down. In 2005 deployment and standardization of new BlackBerry devices and upgraded software included several enhancements, notably wireless synchronization.

### 4. Enterprise Data Warehouse

Initiated as a repository for key retail information and transactions, the Enterprise Data Warehouse (EDW) is now the central source of information on retail, financial, and operational performance, servicing thousands of users each day.

In 2005 use of the EDW again more than doubled, with some 6 thousand active users now creating more than 100 thousand reports each week. These reports reflect the over 1,500 data files loaded into the EDW daily from more than 120 source systems. Improvements in operational efficiency and expansion of the EDW infrastructure will continue to meet the future demands of the EDW-user community as new data sources and additional users are added.



### M. Intelligent Mail

In 2003 the Postal Service established the Intelligent Mail and Address Quality (IMAQ) organization to focus efforts in moving towards an Intelligent Mail system. This system envisions collecting, managing, and leveraging information about mail to improve service and performance and add new value for customers.

The Intelligent Mail Vision is: "Through the deployment of information-rich barcodes placed on all mail, aggregates of mail, and business forms, the Postal Service and its customers obtain end-to-end visibility into the mailstream and can creatively capitalize on the value of information about mail, better manage resources, reduce operating costs and marketing expenses, and anticipate, adapt and respond to present and future market conditions."

The key strategies of the Intelligent Mail system are to uniquely identify mail and its aggregates (i.e., OneCode Vision for mail in trays or other containers); develop and deploy a system to leverage the additional data; and enhance the quality of mailing addresses.

#### 1. OneCode Vision

Under the OneCode vision, mailpieces and larger unit loads of mail will be uniquely identified with a code that enables end-to-end process tracking and full visibility. The OneCode vision creates one barcode per mail type or container that encompasses or points to all relevant services — such as Address Change Services and CONFIRM service.

To pursue its OneCode vision the Postal Service is minimizing the number of barcodes and alphanumeric codes in use through standardization and consolidation. A Coding Standardization Board, established in 2003, provides a logical framework for coding determination and assignment and ensures that all coding decisions satisfy business purposes. During 2005 the board met regularly to continue efforts on new unique identification codes, including those described below.

The Postal Service currently uses a combination of the Postal Numeric Encoding Technique (PostNET) sorting code and the Postal Alpha Numeric Encoding Technique (PLANET) code to identify pieces for CONFIRM services. The maximum length of a PLANET barcode is 13 digits, which severely limits the mailer's ability to identify each mailpiece. In 2005 the Postal Service finalized the design of a new barcode which uses the 4-state barcode symbology. It has recently been named the OneCode<sup>SOLUTION</sup> (OC<sup>S</sup>) barcode. OC<sup>S</sup> has roughly three times the information-carrying capacity of a PostNET barcode, which is 11 digits. The Postal Service made the specifications and the software and fonts to encode the OC<sup>S</sup> available to mailers for testing and evaluation in 2005.

In 2005 the Postal Service updated the specifications for the standard shipping label barcode for parcels. The single barcode now supports multiple special services as well as sorting information.

The Web Automated Tray Label Assignment System (ATLAS) is a key component of the Postal Service's strategy to improve the visibility of mail throughout processing and distribution operations. Among its new capabilities, ATLAS standardizes label printing for trays and sacks. In 2005 the Postal Service deployed ATLAS and a key user interface to Phase 1 Surface Visibility sites. The ATLAS mail processing equipment interface was developed and tested for non-PARS letter mail and AFMS 100 flat mail technology systems, and deployment began in the fall of 2005. A major part of ATLAS will be the graduation from a 10-digit barcode container label format to an enhanced distribution label using a 24-digit barcoded label.

#### 2. Enabling Infrastructure

The Postal Service develops and deploys enterprise-wide common infrastructure to generate and capture codes on mail and aggregates and to disseminate the information in near real time. This type of infrastructure enables an enterprise to build and deploy business applications that respond to emerging customer and internal needs.

##### A. CODE GENERATION AND CAPTURE INFRASTRUCTURE

In conjunction with adoption of OC<sup>S</sup> for encoding, sorting, and tracking letters and flats information, the Postal Service developed additional software for the wide field of view (WFOV) camera that decodes OC<sup>S</sup>. The Postal Service deployed the WFOV camera on all letter mail automation equipment and completed testing to allow flat sorting equipment to decode OC<sup>S</sup>. The Postal Service conducted live flats mail testing in late 2005.

The Postal Service tested OC<sup>S</sup> special service codes via the Enterprise Data Consolidation System and electronic Address Correction Services. This provides real-time change-of-address updates to the Postal Automated Redirection System and visibility to customers, resulting in a more efficient process.

To support the Enhanced Distribution Label (EDL), the Postal Service successfully developed the ATLAS application. ATLAS replaces the Passport label production system, provides the capability of producing labels and/or submitting labels orders online, and centrally manages and coordinates label activities. A transitional EDL was specifically created and successfully implemented to eliminate risk and impact to mail processing operations and distribution.

The Postal Service completed extensive testing and commenced replacement of obsolete printers with a new printer that provides a higher print speed and barcode print quality on processing equipment.

## B. DATA COMMUNICATIONS AND STORAGE INFRASTRUCTURE

The backbone of all Postal Service automation programs is a local area network (LAN) at each plant that provides the underlying data handling infrastructure. The LAN is the conduit for downloading ZIP Code directories and sort plans to mail processing equipment, moving images of individual mailpieces for ZIP Code resolution, and moving operating and mail tracking data to computer servers for subsequent processing. Due to the increase in scope and sophistication of automation, these LANs must be replaced.

In 2005 the Postal Service continued the LAN replacement deployment program, known as Mail Processing Infrastructure (MPI), at 164 mail processing and distribution centers. MPI uses a flexible, wired infrastructure known as structured wiring to provide the highest reliability, scalability, and manageability at the least cost. In December 2005, the Board of Governors approved expanding the MPI program to an additional 170 mail processing facilities which will complete infrastructure needs.

Handheld mobile data collection devices are essential elements of an intelligent mail system. In 2005 the Postal Service contracted to replace existing mobile data collection devices with the Intelligent Mail Data Acquisition System. The new handheld devices include an imager capable of reading all barcodes currently used in the Postal Service and provide additional features such as signature capture. The Postal Service will begin deployment of over 300 thousand devices in 2006 and complete deployment in 2007.

### 3. Address Quality

The Postal Service and its customers depend on the completeness, accuracy, and currency of address information in every aspect of business functions, including list management, mail preparation, and mail processing and distribution. Poor address quality results in mail redirection and extra handling, which adds cost and negatively affects service. It also reduces the customers' return on their investment in the mailing. Poor quality also diminishes the value of information inherent in the Intelligent Mail strategy.

As the Postal Service expands automation to control cost and improve service, the importance of address quality increases. The Postal Service is aggressively working to ensure that the National Address Database and the National Change of Address Database are accurate. In partnership with licensed and certified vendors of directory services and supporting software, the Postal Service also supports the mailing community in ensuring the accuracy of its mailing lists and postal code generation software.

## A. MOVE UPDATE IMPLEMENTATION

The Move Update requirement specifies that addresses used to obtain all First-Class Mail presorted and automation discount rates must be updated within 185 days (6 months) prior to the date of mailing by a Postal Service-approved method.

### 1. NATIONAL CHANGE OF ADDRESS LINK (NCOALink)

In 2004 the Postal Service implemented the NCOALink technology which provides a secure method of matching change of address (COA) records. The NCOALink option is available only through companies licensed by the Postal Service to offer this service. In 2005, vision 400 billion address records were processed by licensed NCOALink vendors.

### 2. ADDRESS CHANGE SERVICE

Address Change Service (ACS) provides electronic COA information or reason for non-delivery to participating customers. Each electronic notification costs \$0.20; the hardcopy rate is \$0.70. However, since ACS fails to catch all eligible mailpieces, participation in the ACS does not completely eliminate the provision of manual address correction notifications. In 2005 the Postal Service processed vision 328 million ACS transactions.

### 3. FASTFORWARD

*FASTforward* is a licensed computer system containing name and address-matching software and the COA database. *FASTforward* technology allows licensed users to comply with the Move Update requirement as they actually process mail on their OCR-equipped sorters, provided that the mail is automation-compatible. In 2005 *FASTforward* processed 4.5 billion records.

### 4. ALTERNATIVE METHODS

When none of the above methods apply, an alternative method administered by Address Management may be used. The alternative methods are:

- List Already Accurate — Mailer Move Update Process Certification, more commonly known as the 99 Percent Test, requires that a mailer provide 100 percent of an electronic version of an address list to the Postal Service to be matched against change-of-address information. Files tested may only contain 1 percent or fewer address changes.
- Legal Restraint — This exception is available for mailers who document that they are legally restrained from using COA information from sources other than directly from their customers.

## Chapter 2 Postal Operations

### B. 100 PERCENT DATABASE QUALITY

By pursuing an aggressive policy of ongoing quality review and by developing technological and procedural improvements that improve communication among delivery and field AMS sites, the Postal Service is making progress toward the goal of providing a 100 percent accurate Address Management System (AMS) database. AMS provides timely delivery point address information for use in all automated processing operations. It also is the source of address information products required by the commercial industry in preparation of automation compatible mailings. In 2005 delivery routes in 41 districts were reviewed as part of the Postal Service's National AMS Street Review Program.

### C. ADDRESS QUALITY IMPROVEMENT

Improving address quality reduces the amount of undeliverable-as-addressed (UAA) mail and improves the effectiveness of automated mail-processing operations. The Postal Service provides products and services that assist mailers in attaining and maintaining 100 percent deliverable address lists. Mailers who use the resources detailed below are able to produce more deliverable mailpieces, increase their return on investment in the mailing, and gain access to work-sharing discounts.

#### 1. ADDRESS ELEMENT CORRECTION

Address Element Correction (AEC) is a service that corrects and standardizes address elements. This process aims to transform problem addresses into accurate, standardized addresses, which allows mailers to take full advantage of automation discounts. AEC also produces a diagnostic report about the mailer's list management practices. The current electronic service resolves, on average, 31 percent of the previously unmatched addresses. More than 20 million addresses were processed in 2005 with 6.4 million addresses resolved.

In 2005 AEC II was launched as an enhancement of the basic, computerized AEC address correction process and seeks to correct addresses in mailers' lists that cannot be fixed using existing programs. Using Delivery Force Knowledge, which is, the knowledge of postal employees that deliver the mail for customers every day, AEC II corrects minor errors in mailers' address lists. AEC II helps reduce the volume of UAA mail for both mailers and the Postal Service.

#### 2. ADDRESSEE NOT KNOWN (ANKLink)

ANKLink is an optional enhancement to the 18-month NCOALink product which was launched in 2005. ANKLink will enable Postal Service licensees to detect if there was a "probable move" beyond 18 months — up to 48 months. This data will not reveal the new address, but will inform

mailers whether a customer change of address is on file along with the date of the move.

#### 3. ELECTRONIC ADDRESS SEQUENCING

Centralized electronic address sequencing service eliminates 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 an efficient and time-saving fashion. In 2005 more than 26.8 million addresses were processed for 115 customers.

#### 4. LOCATABLE ADDRESS CONVERSION SYSTEM (LACSLink)

The Postal Service introduced the Locatable Address Conversion System (LACSLink) in September 2004 to provide a secure technology for address conversions other than a customer move. LACSLink technology enables business mailers to update their rural-style addresses electronically with new, locatable city-style addresses in areas that are experiencing 911 emergency response address conversions. Other types of conversions happen when local municipalities make changes to the addressing schemes or the Postal Service renumbers Post Office boxes. There are currently more than 5 million converted addresses in the LACS file. LACSLink is now available as an option through CASS-certified software.

#### 5. MULTILINE ACCURACY SUPPORT SYSTEM

Multiline Accuracy Support System (MASS) certification is designed to test multiline optical character readers, remote video encoding, local video encoding, and encoding stations. The MASS certification process evaluates the ability of MLOCs and encoding stations to process address information and apply an accurate delivery point barcode to a mailpiece. MASS provides mailers and manufacturers with a common measure by which to test the quality of their machines and, after achieving a minimum percentage of accuracy, be certified by the Postal Service.

### D. CHANGE OF ADDRESS SERVICE

Internet Change of Address (ICOA) service, available through *usps.com*, offers customers the ability to change their address via the Internet. For security, customers must use a credit card to authenticate their identity, and they are charged a \$1 credit card verification fee. The application standardizes and adds ZIP+4 codes to the old and new address using the Postal Service database and delivery point validation. In 2004 the site introduced special offers on move related products and services through view and print coupons. It offers moving tips and information on government services. This initiative, also known as MoversGuide Online, is a part of the Strategic Alliance with a private sector company. In 2005 almost 6

million address changes were made using ICOA, with 4 million filed electronically. This service was especially useful in the aftermath of Hurricane Katrina, when an emergency ICOA Web site was created to help people change their addresses quickly.

Telephone Change of Address (TCOA) service, introduced in 2004, allows customers to change their addresses via the Postal Service call center. The TCOA function standardizes and adds ZIP+4 codes to the old and new address using Postal Service databases. In 2005, 175 thousand address changes were filed using TCOA.

When a customer submits PS Form 3575, *Change of Address Order*, the Postal Service mails a move validation letter to the customer's old address. This step, which alerts the resident that a forwarding request has been made, circumvents fraudulent COAs. After the individual moves, a customer notification letter is also mailed to the new address. Both letters include details of the COA order, providing customers an opportunity to verify the information. They also contain advice for customers on notifying others of their new address and a reminder to register or re-register to vote. Nearly 51 million letters were mailed in 2005.

#### E. CERTIFICATION AND INFORMATION SERVICES

The National Customer Support Center provides a number of services to support customer mail preparation. The Barcode Certification program certifies the ability of hardware and software to produce barcodes that meet automation requirements. The Presort Accuracy Validation and Evaluation program evaluates presort software and determines its accuracy in sorting address files according to DMM standards.

## N. Financial Management

### 1. Activity-Based Costing

Activity-Based Costing (ABC) is designed to assist managers in reducing expenses by assigning both direct and overhead costs to an organizational unit's activities and outputs. The Postal Service has implemented an ABC model that provides information about the costs of activities at each major mail processing plant and bulk mail center (BMC). Reports are available to postal managers and staff on the internal ABC Web site.

New activities and cost categories were added to the ABC model in 2005. Reports were enhanced in 2005 to provide more detailed cost reporting. A BMC ABC model was piloted in 2005 and representatives from 19 of the 21 BMCs received training on the use of the model.

## 2. Financial Reporting

Since 2004 the Postal Service has complied voluntarily with the Securities and Exchange Commission (SEC) financial reporting requirements to the extent that those requirements reasonably can be applied to a non-publicly traded, government-owned entity that sets prices to cover costs. Voluntarily complying with SEC financial reporting requirements has further enhanced the Postal Service's financial reporting and transparency.

Postal Service quarterly reports conform to SEC Form 10-Q reporting requirements and include an enhanced management discussion and analysis section as well as reporting of revenue by major product and expense by function.

Since October 2003, when the Postal Service changed from accounting period to monthly reporting, the Postal Service has aligned its quarterly reports with traditional calendar quarters. This facilitates comparison of Postal Service financial reports with those of other federal agencies and of private sector competitors. Since December 2003, the Postal Service has provided public notice of significant actions and events that could impact finances. These notices, posted as Financial News Releases on the Postal Service's public access Web site at <http://www.usps.com/financials/>, are comparable to SEC Form 8-K reporting.

The Financials section of the Postal Service's publicly accessible Web site provides in-depth reporting on the organization's financial performance. This section provides traditional financial reports for both current and some prior years, including monthly reports; quarterly financial reports; annual reports, annual cost and revenue analysis reports; annual cost segment and components reports; quarterly and annual revenue, pieces, and weights reports; annual comprehensive statements on postal operations; and annual Integrated Financial Plan.

Additional Postal Service reporting is available to the public on the PRC Web site at [www.prc.gov](http://www.prc.gov).

## 3. Bank Secrecy Act Compliance

In order to combat money laundering and terrorism, Congress enacted a series of laws from 1970 through 2001 that require banks and financial service firms to detect, deter, track, and report certain cash transactions to the U.S. Department of the Treasury. This legislation and amendments, which have become known as the Bank Secrecy Act (BSA), further mandate that financial institutions monitor and ensure their employees' compliance with the BSA. The Postal Service, which sells postal money orders and provides international funds transfers with its Sure Money product, is specifically named in the BSA and must meet all of the requirements of the law.

## Chapter 2 Postal Operations

The Postal Service launched its automated reporting system in compliance with BSA in 1997 and enhanced the system to include electronic reporting in 2001. In 2003, the Postal Service further enhanced its BSA compliance efforts by implementing a back-office analysis system. This system supplements the Postal Service's point-of-sale efforts that comply with the BSA and is able to detect potentially suspicious activity that might not be discernible at the point-of-sale due to the sophistication of some criminal activities. In 2005 the Postal Service provided further training of all its sales and services associates to ensure compliance with the BSA's reporting requirements.

The BSA Compliance Office partners with Information Technology to ensure the security of data gathered through the BSA compliance system. It reduces risk to the Postal Service by ensuring that the organization complies with all requirements of the BSA. The Postal Service understands that gathering information from members of the public is a sensitive issue and that information must be safeguarded. Additionally, to ensure that the proper balance is maintained between compliance and the public's right to privacy, the BSA compliance officer works closely with the chief privacy officer.

### 4. Internal Controls

The Internal Control Group (ICG) was established in 2003 to oversee compliance with Postal Service policies and processes and enhance the transparency of financial reporting. The ICG operates as an internal consultant for enterprise risk management, assisting management in proactively improving processes. Trained internal control analysts partner with management to identify weaknesses in controls through analysis, risk assessment, and review, and to determine the root causes for deficiencies and make recommendations for improvement.

In 2005 the Postal Service established the eRise project to integrate enterprise risk management and Sarbanes-Oxley Act compliance efforts. Replacing the Internal Control Reporting System, eRise will use a more comprehensive commercial off-the-shelf package to document processes, associated risks, and controls; identify review and audit procedures to test controls; and collect data on the results of reviews and audits. The eRise program will be implemented in 2006.

In 2005 ICG initiated a master trust reconciliation review process. This nationwide review of customer trust accounts reduced unreconciled differences in these accounts by 35.8 percent compared to 2004. Local internal control groups are now conducting master trust reconciliation reviews on their own.

ICG also conducted a formal analysis of 1,219 business mail acceptance reviews conducted by local internal control groups. On the basis of its analysis, ICG recommended modifications to PostalOne!, the system used to track business mail activity and revenue. Scheduled for implementation in 2006, the modification will integrate multiple reporting systems, reduce out-of-balance conditions in customer trust funds, eliminate redundant records systems, and reduce irregularity in reporting.

Local ICG's conducted 1,679 retail floor stock reviews in 2005, which resulted in a 19.3 percent reduction in losses from 2004 levels. This success followed the review program's achievement of a 26.3 percent reduction in retail floor stock losses in 2004, as compared to 2003. The program will continue in 2006.

ICG coordinates an annual Risk Assessment and Prioritization (RAP), a systematic approach to promote broad-based risk identification, ensure that significant data is included in risk analysis, build work plans targeted to achieve risk reduction, and communicate risk priorities within the organization. RAPs are formulated at the performance cluster and area levels and are used to develop internal control work plans. Recommendations are also formed from data provided by other functions and by the Office of Inspector General (OIG), the Postal Inspection Service, the Government Accountability Office (GAO), and external auditors. A subgroup of ICG, Corporate Audit Response Management (CARM), coordinates corporate responses to all audits and inquiries by the OIG and the GAO, promoting a collaborative approach with these agencies to effectively address audit findings.

### 5. Capital and Program Evaluation Project Management Web Site

Capital and Program Evaluation (CAPE), in partnership with Corporate Business Systems Solutions, developed an internal Web site for enhanced management of the capital investment process. The new project management Web site better meets the goals of the former management system it supercedes. The new CAPE Web site improves the development, preparation, and review of investment decision electronic documents; provides a centralized, secure, and easily accessible Web-based repository for investment decision documents; and provides a more efficient and streamlined Decision Analysis Report (DAR) development process that can advance projects and their potential savings. CAPE's project management Web site uses a collaboration portal and commercial off-the-shelf applications to manage site content. Initial applications became available to Postal Service managers in October 2005 and training for site users took place between October and December 2005. All new DAR submissions are using the site as of October 2005.



**Chapter 3**  
**Financial Highlights**







# Chapter 3

## Financial Highlights

### A. Financial Summary

To avoid redundancy between the *2005 Annual Report* and this *2005 Comprehensive Statement on Postal Operations*, financial highlights presented here are in a condensed format. Discussion and analysis focus on Postal Service financial results for 2005; aspects of financial management on which Congress has requested that the Postal Service report; business programs on which the Postal Service is required to report, such as the *Breast Cancer Research* and the *Heroes of 2001* semipostal stamp programs; and topics of particular interest to Congress, such as appropriations. A more detailed analysis of the financial results is provided in the Postal Service's *2005 Annual Report*.

#### 1. Revenue

Revenue growth in 2005 exceeded that projected in the operating plan. Although First-Class Mail, Periodicals, and Package Services revenues declined, overall revenue was 1.4 percent greater than in 2004. Total revenue was \$69,993 million.

Total volume for the year was 2.7 percent above the 2004 total and some alterations in the composition of total mail volume must be noted. The mailstream has changed significantly since 2000 when First-Class Mail was the largest component. In the past 5 years, First-Class Mail volumes declined 5.3 percent, while Standard Mail volumes grew 12.1 percent. In 2005 Standard Mail exceeded First-Class Mail volume for the first time, as shown in table 3-1. The Postal Service expects this shift in the mail mix to continue. While Standard Mail service now leads volume growth and has overtaken First-Class Mail in the mailstream, it provides an average of only 19 cents in revenue per piece. First-Class Mail provides an average of 37 cents per piece. Standard Mail has also been more susceptible than First-Class Mail to fluctuations in the economy. Consequently, although 2005's volume set a new record of 212 billion pieces, the shifting mix of mail has affected revenues substantially. At 2005 postage rates, the lower volume and specific mail mix of 2000 would have generated \$3.3 billion more revenue.

First-Class Mail is comprised predominantly of single-piece and workshared volume. For many years, single-piece First-Class Mail volume has been in decline and has been offset only partially by growth in workshared First-Class Mail volume, resulting in the trend of lower First-Class Mail revenues and volumes. E-commerce and electronic messaging increasingly displace personal correspondence and paper based commercial transactions using First-Class Mail. Standard Mail volume growth in 2005 was aided by November 2004 election mail, as well as by increased strength of direct marketing and a surge in credit card marketing. Standard Mail volume also has benefited as "Do Not Call" telephone restrictions shifted some direct marketing efforts to mail.

As First-Class Mail volume has declined, the number of mailpieces delivered per address has declined as well. Yet, delivery points have continued to grow and with them, the infrastructure and personnel costs directly attributable to servicing those delivery points. A decline in the number of pieces delivered per delivery point, combined with shrinking revenue per mailpiece delivered, impacts the Postal Service's costs of carrying out its universal service obligation. Consequently, fulfilling the Postal Service's universal service obligation will become ever more costly as these trends continue.

Mail volume growth and revenue growth are dependent on the economy, the underlying demand for postal services, and the attractiveness of competitive alternatives. Growth in economic activity in 2005, as measured by gross domestic product (GDP) and retail sales, continued to be strong in spite of the disruption from Hurricanes Katrina and Rita in the latter part of the year. Within the parameters of the fiscal year, GDP grew 3.6 percent in 2005 with continued strength in retail sales.

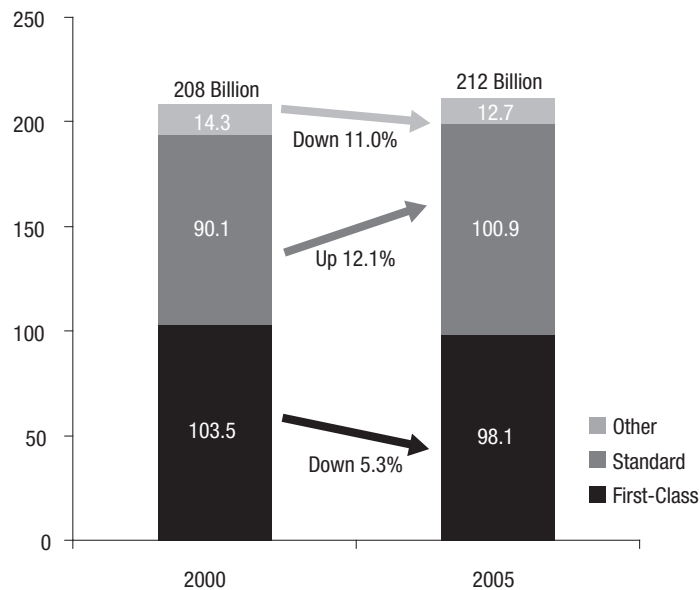
**Table 3-1 Total Revenue and Volume by Class of Mail**

	Revenue (\$ millions)					Volume (pieces in millions)				
	2005	% of Total	% Change	2004	% of Total	2005	% of Total	% Change	2004	% of Total
First-Class Mail	36,062	51.5	(0.9)	36,377	52.7	98,071	46.3	0.1	97,926	47.5
Priority Mail	4,634	6.6	4.8	4,421	6.4	887	0.4	4.6	849	0.4
Express Mail	872	1.2	2.3	853	1.2	55	0.0	2.5	54	0.0
Periodicals	2,161	3.1	(1.4)	2,192	3.2	9,070	4.3	(0.7)	9,135	4.4
Standard Mail	18,953	27.1	4.6	18,123	26.3	100,942	47.7	5.6	95,564	46.4
Package Services	2,201	3.1	(0.3)	2,207	3.2	1,166	0.6	2.9	1,132	0.6
International	1,765	2.5	4.1	1,696	2.5	852	0.4	0.9	844	0.4
Other*	3,345	4.8	5.9	3,160	4.5	700	0.3	16.2	602	0.3
<b>Total</b>	<b>\$69,993</b>	<b>100.0%</b>	<b>1.4%</b>	<b>\$69,029</b>	<b>100.0%</b>	<b>211,743</b>	<b>100.0%</b>	<b>2.7%</b>	<b>206,106</b>	<b>100%</b>

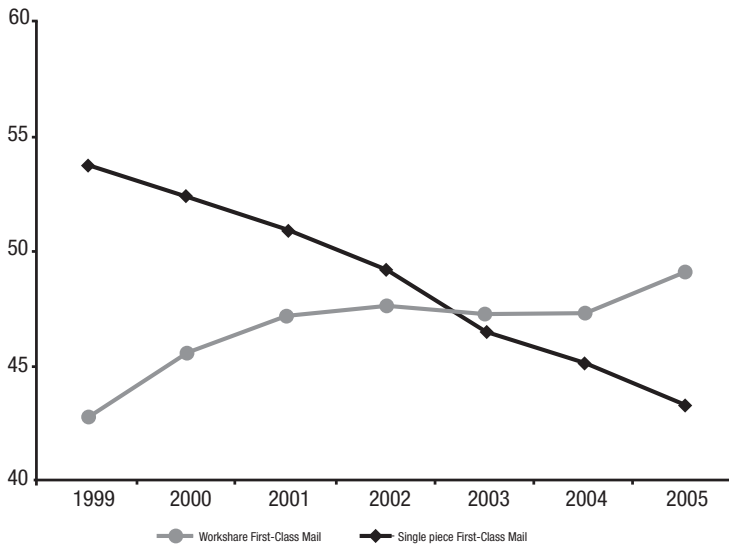
\* The Revenue "Other" category includes mailgrams, special services, interest, emergency preparedness appropriations, and free matter for the blind. The Volume "Other" category includes internal Postal Service mail volume, mailgrams, and free matter for the blind.

Note: Percentages are calculated based on unrounded numbers.

**Fig. 3-1 Mail Mix Comparison (pieces in billions)**



**Fig. 3-2 First-Class Mail Volume (pieces in billions)**



## 2. Expenses

Compensation and benefits dominate Postal Service expenses, comprising approximately 79 percent of total expenses. These costs are detailed in Table 3-2. In 2005 management continued to control personnel costs, reducing career complement by approximately 2,800. For the first time in 6 years, however, workhours increased by almost 11 million due to the addition of 2 million delivery points and an increase in mail volume of 5.6 billion pieces. The rate of increase in compensation and benefits expenses was held to 3.4 percent, the same rate recorded in 2004, through management's cost control actions, Public Law 108-18's reduction of the previously scheduled 2005 Postal Service obligations to the Civil Service Retirement and Disability Fund, and a decrease in workers' compensation expense. Even so, costs per workhour, driven higher by contractual wage increases, cost-of-living allowances (COLAs), and rising health benefit premiums, continued to exert upward pressure on expenses. The September 2005 COLAs were the largest ever. The Postal Service's primary strategies for controlling workers' compensation costs are to reduce accidents and to identify productive work assignments for those employees who cannot return to their normal duties. Historical fluctuations in this expense are shown in Table 3-3. Health benefits for employees and retirees, another significant expense driver, increased by \$437 million in 2005, a 7.1 percent increase. Total non-personnel costs increased 4.6 percent reflecting the significant fuel price increases during 2005. Interest expense on deferred retirement obligations increased \$160 million.

**Table 3-2 Analysis of Expenses**

(\$ millions)				
	2005	2004	Difference	% Change
<b>Personnel</b>				
Compensation	39,299	37,876	1,423	3.8
Benefits	14,633	14,258	375	2.6
Compensation and Benefits	53,932	52,134	1,798	3.4
<b>Non-personnel</b>				
Transportation	5,437	4,969	468	9.4
Supplies and Services	2,416	2,414	2	0.1
Building Occupancy	1,859	1,771	88	5.0
Depreciation	2,089	2,145	(56)	(2.6)
Other Costs	2,550	2,418	132	5.5
<b>Non-Personnel Total</b>	<b>14,351</b>	<b>13,717</b>	<b>634</b>	<b>4.6</b>
<b>Interest Expense</b>				
Interest Expense — Deferred Retirement	263	103	160	155.3
Interest Expense — Borrowing	2	10	(8)	(80.0)
<b>Total Expenses</b>				
	<b>68,548</b>	<b>65,964</b>	<b>2,584</b>	<b>3.9</b>

**Table 3-3 Workers' Compensation Expense and Cash Payments**

(\$ millions)				
	Workers' Compensation Expense	Administrative Charge (DOL)	Total Annual Expense	Payments to DOL for Postal Service Active Claims and Admin. Charges*
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	1,487	37	1,524	818
2003	1,428	45	1,473	892
2004	1,195	44	1,239	897
2005	782	56	838	885

\*Payments in this table are by year in which the payments were made. Listed payments include payments for active Postal Service claims and for associated Department of Labor (DOL) administrative charges.

**Table 3-4 Income and Expense Statement**

(\$ millions)				
	2005	2004	Variance	% Change
<b>Income</b>				
Mail Revenue	66,649	65,869	780	1.2
Special Services	3,149	3,091	58	1.9
Revenue Forgone Appropriation*	109	36	73	202.3
Operating Revenue	69,907	68,996	911	1.3
<b>Expenses</b>				
Compensation and Benefits	53,932	52,134	1,798	3.4
Transportation	5,437	4,969	468	9.4
Other Costs	8,914	8,748	166	1.9
Total Operating Expenses	68,283	65,851	2,432	3.7
Income from Operations	1,624	3,145	(1,521)	(48.0)
Interest Income	86	33	53	160.6
Interest Expense — Deferred Retirement Costs	(263)	(103)	160	155.3
Interest Expense — Borrowing	(2)	(10)	(8)	80.0
<b>Net Income</b>	<b>1,445</b>	<b>3,065</b>	<b>(1,620)</b>	<b>(52.9)</b>

\* 2005 Revenue forgone includes reconciliation adjustment of \$54 million for 2002, 2003, and 2004.

### 3. Net Income

The Postal Service's net income in 2005 was \$1.4 billion. By managing reductions in expenses and increases in productivity, the Postal Service achieved greater than planned efficiencies for the year, while revenue was substantially greater than planned, primarily in the first quarter of the year.

First-Class Mail volumes for relatively higher-contribution pieces increased slightly after a 3-year decline. Lower-contribution Standard Mail volume exceeded overall First-Class Mail volume for the first time. The unexpected increase in total mail volume contributed to the \$1.6 billion in revenue over plan. Coupled with this revenue gain, net income benefited from Postal Service actions to realize the goals of its 2002 *Transformation Plan* through continued management of expenses. Although expenses were \$2.6 billion more than in 2004, this growth was mitigated by more than \$700 million in cost reductions. The Postal Service was able to manage an increased workload of more delivery points and increased mail volume with a smaller increase in resource usage. As a result of all these factors, Total Factor Productivity grew by 1.1 percent, the sixth straight year of increased productivity.

### 4. Financing Debt

As an independent and self-sustaining agency of the executive branch of the federal government, the Postal Service receives no federal government appropriations

other than the minimal revenue foregone reimbursements for services provided, and funding for homeland security/emergency preparedness costs covered in section D. The amount the Postal Service borrows is largely determined by the difference between its cash flow from operations and capital cash outlays. Capital cash outlays are the funds invested back into the business for capital investments in new facilities, automation equipment, and services. From 1997 through 2002, outlays for capital investment exceeded cash from operations by \$5.4 billion, with most of the difference covered by borrowed funds. From 1997 to 2002, Postal Service debt outstanding with the Department of the Treasury's Federal Financing Bank increased from \$5.9 billion to \$11.1 billion. In 2003 the Postal Service reduced its debt by \$3.8 billion and, in 2004 by \$5.5 billion. Strong cash flow from operations in 2005, fortified by the "savings" from P.L. 108-18, enabled the repayment of the remaining debt. This is the first time since postal reorganization that the Postal Service ended a year without outstanding debt obligations.

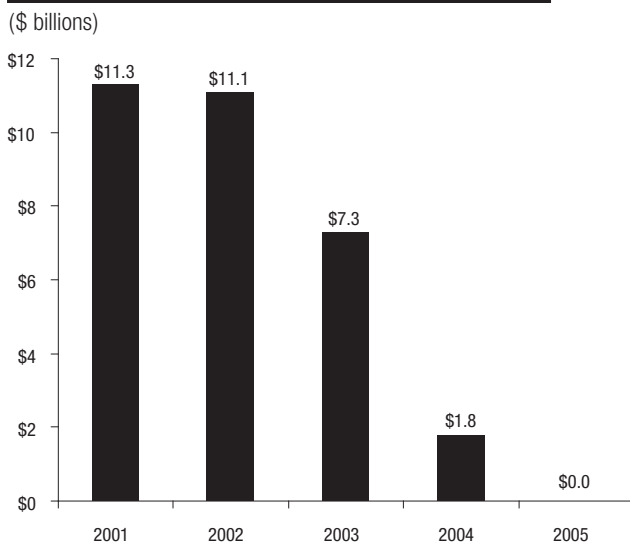
The Postal Service undertook debt refinancing actions in 2003 that laid the foundation for financial gains in 2004 and 2005. In 2003 it completely overhauled its debt portfolio, paying off all long-term debt obligations and replacing most of them with short-term debt that would be retired during the course of 2004. Although a prepayment premium was paid to effect the refinancing, it was recovered through reduced interest expense in approximately 15 months. As a result of

the overhaul, the Postal Service benefited from both lower interest rates on short-term debt and also from the flexibility to repay debt with available cash on a daily basis. A major benefit was the reduction in the interest expense payable to the Federal Financing Bank. Reflecting this change, interest expense on borrowings in 2005 was the lowest since postal reorganization. The 2003 debt transactions also provided the flexibility to pay off \$5.5 billion in debt in 2004, substantially more than the \$2.7 billion required by P.L.108-18 without concerns for paying a prepayment premium. Finally, the Postal Service benefited from the rise in short-term interest rates throughout 2005 by earning greater investment income because it held investment balances instead of debt on most business days.

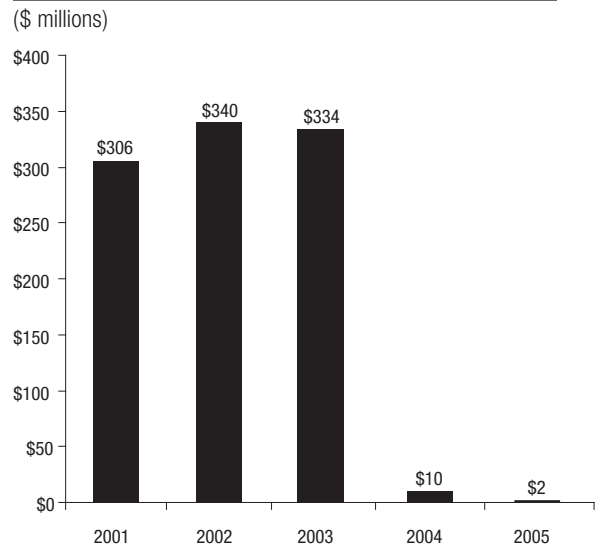
Cash flows in 2005 were marked by two notable occurrences: the workers' compensation payment exceeded the amount expensed for the year for the first time since 1997; and the payments made for capital investments exceeded depreciation expense for the first time since 2001. It is uncertain whether the workers' compensation change is an isolated event or the beginning of a new trend. The cash outlays for capital investments are likely to exceed depreciation for the foreseeable future.

In 2006 after funding the escrow requirement estimated at \$3.1 billion, cash flow from operations will not be sufficient to pay for all planned capital investments. A projected borrowing of at least \$1 billion will be needed to make up the shortfall. The Postal Service's debt levels beyond 2006 will be influenced by the ability to control the level of capital investment and operate at close to break even.

**Fig 3-3 Debt at Fiscal Year End**



**Fig 3-4 Other Interest Expense\***



\*Other interest expense excludes interest on deferred retirement obligations and the 2003 debt repurchase expense.

#### A. INTEREST EARNING INVESTMENTS

When the Postal Service determines that funds exceed current needs, it invests those funds with the U.S. Treasury's Bureau of Public Debt, primarily in overnight securities issued by the U.S. Treasury. It favors short-term investments because of its cash flow patterns and to guard investments against exposure to the price risk associated with increases in interest rates.

**Table 3-5 Interest and Investment Income**

(\$ millions)

	2005	2004	2003
Investment income	60	5	30
Imputed interest on accounts receivable from the U.S. government	25	26	26
Other Interest	1	2	2
<b>Total</b>	<b>86</b>	<b>33</b>	<b>58</b>

#### B. LIQUIDITY

Postal Service liquidity is the cash in the Postal Service Fund in the U.S. Treasury and the amount of money that the Postal Service can borrow on short notice if needed. Its note purchase agreement with the Federal Financing Bank, renewed this year, provides for revolving credit lines of \$4 billion. These credit lines enable the Postal Service to draw up to \$3.4 billion with 2 days' notice and up to \$600 million on the same business day the funds are needed. Under this agreement, the Postal Service can also use a series of other

notes with varying provisions to draw upon with 2 days' notice. The notes provide the flexibility to borrow short-term or long-term, using fixed or floating rate debt, and can be either callable or non-callable. The Postal Service judges that its arrangement with the Federal Financing Bank provides it with adequate tools to effectively manage its interest expense and risk.

The amount of funds the Postal Service can borrow is limited by the amount of debt authorized by the Board of Governors and by certain statutory limits on borrowing. Statutorily, total debt outstanding cannot exceed \$15 billion; and the net increase in debt for any fiscal year cannot exceed \$2 billion for capital purposes and \$1 billion to defray operating expenses (\$3 billion maximum annual limit).

Postal Service liquidity in 2006 will be comprised of the cash on hand, the cash flow generated from operations, and the \$3 billion that can be borrowed if necessary. The Postal Service does not expect cash flow from operations to supply enough cash to fund both the escrow requirement, estimated at \$3.1 billion, and capital investments. Consequently, as mentioned earlier, it anticipates increasing debt by at least \$1 billion in 2006. However, this projection is not without risks, and unfavorable events would cause a re-evaluation of the planned 2006 year-end levels of debt.

### 5. Capital Investment

Capital investments include purchases of plant, property, and equipment with a cost generally greater than \$3 thousand and a useful life of more than 1 year. The Postal Service invests in capital projects that reduce operating costs, maintain or expand its infrastructure, or provide for the safety and well being of customers and employees. The Postal Service commits capital funds when it signs a contract with a vendor.

Each year, the Board of Governors determines the annual capital commitment plan, an essential element of the Integrated Financial Plan. The Postal Service employs an internal review process that ensures each proposed investment is fiscally sound. Investments valued at \$25 million or more also must be reviewed by the Board of Governors Capital Projects Committee which may then recommend the proposed investment to the Board of Governors for its approval.

Capital commitments of \$2.9 billion were made in 2005 on a plan of \$3.3 billion. The difference between planned and actual commitments resulted primarily from various delays in the development process which resulted in the deferral of some projects until 2006. Examples of the delayed projects are the Postal Automated Redirection System (PARS) for Flats and projects for various processing and delivery facilities.

The following table summarizes 2005 capital by category of investment.

**Table 3-6 Capital Commitments**

(\$ millions)		
	2005 Actual	2005 Plan
Mail Processing Equipment	1,175	995
Facilities	709	1,045
Infrastructure and Support	796	882
Retail	1	26
Vehicles	241	328
<b>Total*</b>	<b>2,921</b>	<b>3,276</b>

\*Numbers may not add due to rounding.

In 2005 Mail Processing Equipment commitments included three main projects: PARS Phase II; the Flat Recognition Improvement Program (FRIP) Phase II; and the Automated Flat Sorting Machine 100 (AFSM 100) Auto Induction System. PARS automates processing of undeliverable-as-addressed mail. The FRIP provides additional read and error rate improvements for flat sorting equipment. The Auto Induction System automates the preparation and feeding of flats on the existing AFSM 100s.

More than \$515 million of the Facilities commitments in 2005 were for repair and alteration projects performed at thousands of postal facilities throughout the country. The remainder of the Facilities commitments were for the Southern Maine Processing and Distribution Center and various customer service facilities.

Commitments in excess of \$795 million were made in 2005 for Infrastructure and Support and included funding for: the Intelligent Mail Data Acquisition System (IMDAS) to replace and enhance the current version of mobile data collection devices; the Human Capital Enterprise/Human Resources Shared Services to capitalize on the efficiencies of a centralized shared service center; and the Surface Visibility and Surface-Air Support System Phase III to enable use of an enhanced distribution label to track sacks, trays, and tubs of mail throughout the network.

Retail commitments were made primarily for completing the Automated Postal Center kiosk deployment. Vehicles funds were for the replacement of tractors used to transport trailers of mail and equipment to and from processing and distribution centers and, for spotters which are used to move trailers to and from docks and to stage trailers for loading and unloading between Postal Service facilities. The Vehicles commitment also includes the purchase of over 3 thousand carrier route vehicles which will be deployed to city delivery routes with existing right-hand-drive vehicles. The

right-hand-drive vehicles will then be redeployed to targeted rural carriers.

## B.Total Factor Productivity

The Postal Service measure of productivity, Total Factor Productivity (TFP), includes all factors of production. TFP measures the growth in the ratio of outputs and the inputs, or resources, expended in producing those outputs. 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. The weighting is determined by factors such as size; weight; 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 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.

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 the U.S. economy has become more heavily weighted with high technology goods and services. Therefore, 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.

Worksharing discounts for mailers, for example, impact Postal Service productivity performance as these incentives shift a greater proportion of the workload associated with automation compatible mail to business mailers. While worksharing discounts provide cost savings for the Postal Service and enhance the productivity of the economy as a whole, they do transfer the prime Postal Service opportunities for productivity improvement to our partners, the mailers. In contrast, the BLS measure, multifactor productivity, does not factor out

self-service or worksharing on the part of the customer. MFP captures the whole of the economy, including productivity that has been transferred between segments.

Table 3-7 shows annual and cumulative TFP and Output per Workhour compared to MFP for 1990 through 2005. 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. Beginning with 2000, the Postal Service has achieved strong growth in both TFP and Output per Workhour.

The Postal Service's TFP growth of 1.1 percent in 2005 marks 6 consecutive years of positive growth. Output per Workhour growth was 1.4 percent. This 2005 TFP result is equivalent to \$749 million in expense reductions. Cumulative from 2000, TFP growth measures 10.1 percent, equivalent to \$6.8 billion in expense reductions. Output per Workhour over this same period grew 12.1 percent.

In 2005 productivity growth was driven primarily by workload growth. Mail volume grew by 2.7 percent and delivery points grew by 1.6 percent contributing to a 1.8 percent increase in workload. The Postal Service was able to achieve TFP growth of 1.1 percent by managing an increased workload with a small increase in resource usage. Labor and materials usage increased by 0.4 percent and 2.6 percent, respectively.

The Postal Service plans to continue to improve TFP over time. It is now policy to develop an annual budget each year so that the net income target also yields positive and sustainable TFP growth. This objective is balanced against the need for service improvements to improve customer satisfaction and remain competitive in the marketplace.



**Table 3-7 Productivity Since 1990**

	Total Factor Productivity		Output per Workhour*		Multifactor Productivity**	
	Annual***	Cumulative From 1972	Annual	Cumulative From 1972	Annual	Cumulative From 1972
1990	2.9	8.6	3.4	13.9	0.4	11.9
1991	(1.8)	6.8	(0.1)	13.7	(0.5)	11.4
1992	0.4	7.2	1.0	14.8	2.4	13.8
1993	3.8	11.0	4.6	19.3	0.4	14.2
1994	(0.2)	10.9	0.8	20.2	1.0	15.2
1995	(1.9)	8.9	(1.3)	18.9	0.1	15.3
1996	(1.3)	7.6	(0.1)	18.8	1.5	16.7
1997	1.3	8.9	1.7	20.5	0.6	17.4
1998	(1.0)	7.9	1.2	21.7	1.1	18.5
1999	(0.1)	7.7	0.9	22.6	1.1	19.6
2000	2.2	9.9	2.0	24.6	1.2	20.8
2001	1.7	11.6	1.7	26.3	0.0	20.8
2002	1.0	12.6	2.2	28.5	2.0	22.8
2003	1.8	14.4	2.3	30.7	2.4	25.2
2004	2.4	16.7	2.5	33.2	2.6	27.8
2005	1.1	17.8	1.4	34.6	1.3	29.1

\* Output per Workhour measures the changes in the relationship between workload (mail volume and deliveries) and the labor resources used to do the work. The main output is delivering mail and services to an expanding network.

\*\* BLS revised the MFP index and rebased it to 2000–2001. The MFP data for 2003–2005 are estimates of Global Insights, Inc. BLS data for these years have not yet been released.

\*\*\* Historical data is subject to revision as certain data used in calculating productivity are periodically revised. Price indexes released by the BLS and the Bureau of Economic Analysis that are used to calculate resource usage are subject to historical revisions by these agencies. When historical revisions are released, they are incorporated into the TFP calculation, which 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 are available. Generally, this revision occurs in April of the following year.

### C. Postal Civil Service Retirement System Funding Reform Act of 2003 (Public Law 108–18)

Previously Docket No. R2005-1 presented the first instance in which the Postal Service’s proposals to raise rates and fees in an omnibus rate case were based on a single, statutory financial obligation. That obligation is mandated by P.L. 108–18, the Postal Civil Service Retirement System Funding Reform Act of 2003, which amended the Postal Service’s responsibilities under the federal Civil Service Retirement System (CSRS) but created new financial obligations that must be paid for with newly generated revenue beginning in 2006.

Congress had concluded that, under previously-applied mechanisms for determining the Postal Service’s liability, future payments to the Civil Service Retirement and Disability Fund would result in substantial over-funding of Postal Service obligations to the system. P.L. 108–18 reduced the Postal Service’s future obligations and determined that the difference between the Postal Service’s liability under the previous approach, and the liability under P.L. 108–18 (the

“savings”), would be applied to reduce debt and maintain rate stability in 2003, 2004, and 2005. The law directed the Postal Service to place the “savings” in escrow, beginning in 2006. Although the escrow funds were to be classified as operating expenses, the Postal Service was not authorized to apply them to any financial or operational use in maintaining the national postal system. The January 8, 2006, rate increase will be effected for the sole purpose of generating the revenue required to fund the 2006 escrow obligation of \$3.1 billion as required by P.L. 108–18.

### D. Federal Government Appropriations

By law, the Postal Service currently is authorized to receive two types of appropriations from the federal government as reimbursement for its costs of performing certain services. These are for the public service costs incurred in providing a maximum effective degree of universal mail service and for revenue forgone which is reimbursement for providing free mailings to the blind and overseas voters. In the early years of the Postal Service, a third type of appropriation, “transitional appropriations,” provided a means for the federal government

to fund costs related to its obligations to the former Post Office Department (POD) and thereby shelter ratepayers from such costs. Workers' compensation costs related to claims arising prior to July 1, 1971, were the last known POD costs to have been reimbursed. In the Balanced Budget Reform Act of 1997, Congress transferred responsibility for those costs to the Postal Service and rescinded the section of title 39 of the United States Code that authorized transitional appropriations to the Postal Service.

The Postal Service remains authorized to request up to \$460 million for public service costs. This is the amount authorized by the Postal Reorganization Act of 1970 and is not intended to represent the present cost of providing universal service. The Postal Service has neither requested nor received reimbursement of its public service costs since 1982, which may be viewed as a "savings" of \$10.5 billion to the U. S. government and taxpayers. In 1971, the final year of the POD

prior to creation of the Postal Service, appropriations totaled almost 25 percent of total POD revenue.

In 2005 the Postal Service recognized a revenue forgone reimbursement of \$109 million to fund free mail for the blind and for mailing overseas voting materials. These accounted for less than 0.2 percent of total Postal Service revenue in 2005. Because legislation delayed payment until future years, this amount remains in accounts receivable at the end of the year.

Additionally, in 2002 and 2005, the Postal Service received four appropriations from the federal government to help fund costs related to homeland security and emergency preparedness. Those appropriations are discussed in the next section.

**Table 3-8 Historical and Present-Year Impact of Congressional Appropriations on Mail Revenue 1971, 1976, 1986, 1996, and 2005**

Year	Total Mail Revenue (\$ millions)	Mail Revenue Without Appropriations (\$ millions)	Appropriation Category	Income From Appropriation (\$ millions)	Appropriation as a Percentage of Total Mail Revenue
1971*	8,752	6,665	Deficiency in rates, fees, and public service	2,087	23.8
1976			Free and reduced-rate mail	725	
			Reconciliation for prior years	none	
			Public service	920	
	12,844	11,199		1,645**	12.8
1986			Free and reduced-rate mail	750	
			Reconciliation for prior years	(34)	
			Public service	0	
	30,818	30,102		716	2.3
1996			Free and reduced-rate mail	56	
			Public service		
			Net Impact of Revenue Forgone Act of 1993	37	
	56,402	56,309		93**	0.2
2005			Free mail for the blind and overseas voting	55	
			Reconciliation for prior years	54	
			Public service	0	
	69,909	69,798		109	0.2

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

\*\*This amount does not include the appropriation for Post Office Department transitional costs.

### E. Emergency Preparedness Funding

The September 11, 2001, terrorist attacks on the World Trade Center damaged and destroyed Postal Service facilities and property in the contiguous area. In October 2001, well-publicized incidents of biological terrorism targeted U. S. senators and members of the media and also affected other untargeted persons. 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 overall mail volume declined in 2002 and 2003.

The Postal Service's viability and its value to the American people depend upon an open and accessible mail system. Following the anthrax attacks, it was critical that the Postal Service enhance the safety of the mail system and reduce risks to both employees and customers. To accomplish those ends, the Postal Service implemented new and enhanced technology applications and process changes.

Shortly after the initial bioterrorist attacks, the President of the United States authorized initial funding of \$175 million 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 biohazardous 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." Postal Service 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.

The Postal Service submitted the required *Emergency Preparedness Plan* to Congress in March 2002. In August 2002, Congress appropriated an additional \$87 million for emergency expenses, as detailed in the Postal Service's *Emergency Preparedness Plan*.

In September 2005, as part of the *Consolidated Appropriations Act, 2005* (P.L. 108-447), Congress appropriated \$503 million to protect Postal Service employees and customers from exposure to hazardous materials in the mail and to build an irradiation facility. All emergency preparedness funding remains available until expended.

The Postal Service initially recorded this \$1,265 million in federal funding as a liability. This liability is reduced as qualifying expenses are incurred and offsets depreciation expense over the life of capital equipment acquired.

**Table 3-9 Application of Emergency Preparedness Appropriations as of September 30**

	Congressional Appropriation				Presidential Authorization
	2005	2004	2003	2002	2002
Funding Received	503	0	0	587	175
Used for Operating Expenses including Depreciation of Capital Equipment	4.5	92	0	0	16
Non-operating Expenses	0	0	177	4	121
Capital Equipment*	0	0	0	0	38
Liability Balance at September 30	772**	314	406	583*	0

\*In 2003 the comprehensive statement showed a balance of \$545 million. However, \$38 million was spent on irradiation equipment that did not meet the needs of the Postal Service. With the approval of the Office of Management and Budget, the eight machines, valued at \$24 million, were transferred to other government and public agencies, and the manufacturer provided the Postal Service with a stronger machine at no additional cost. This new machine is valued at \$14 million.

\*\*The liability of \$772 million as of 9/30/05 relates to \$486 million of capital equipment that has been purchased but not yet depreciated and \$286 million for which purchase commitments have been made.

## F. Semipostal Stamps

In 1997 the Stamp Out Breast Cancer Act, P.L. 105–41, authorized the issuance of the first semipostal stamp to raise funds to help in finding a cure for breast cancer. The stamp is sold for 45 cents and is valid for the current cost of a 1-ounce, single-piece 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 and the Department of Defense Medical Research Program.

From program inception through the end of 2005, approximately 657 million *Breast Cancer Research* stamps have been sold. Semipostal stamps sold during that 7-year period have raised a net voluntary contribution of \$48 million. 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. During the life of the program through the end of 2005, approximately \$1.1 million has been withheld to cover these incremental costs.

The *Heroes of 2001* semipostal stamp, authorized by the 9/11 Heroes Stamp Act of 2001 legislation, 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 sold for 45 cents. Like the *Breast Cancer Research* stamp, valid for the then current cost of a 1-ounce, single-piece First-Class Mail letter. It was offered for sale through December 31, 2004. A total of 133 million *Heroes of 2001* stamps were sold. This resulted in a contribution of \$10.6 million to the Federal Emergency Management Agency, which is responsible for disbursing payments to eligible participants. The Postal Service recovered \$0.5 million in costs for this semipostal stamp.

The *Stop Family Violence* semipostal stamp, authorized by P.L. 107–67, the Stamp Out Domestic Violence Act of 2001, provides assistance to the programs and organizations fighting domestic violence. The stamp was issued on October 8, 2003. Like the *Breast Cancer Research* and *Heroes of 2001* stamps, it sells for 45 cents and is valid for the current cost of a 1-ounce, single-piece First-Class Mail letter. It will be offered for sale through December 31, 2006. Since inception, 31 million *Stop Family Violence* stamps have been sold. This has resulted in a contribution of \$1.8 million to the U.S. Department of Health and Human Services to help fund domestic violence prevention programs. The Postal Service has recovered costs of \$0.2 million.

# 2005 Annual Performance Report and Preliminary 2007 Annual Performance Plan





# Chapter 4

## 2005 Annual Performance Report and Preliminary 2007 Annual Performance Plan

### Government Performance and Results Act Requirements

The Government Performance and Results Act (GPRA) requires that the Postal Service:

- Establish strategic goals and objectives.
- Develop reliable, verifiable indicators and performance measurement systems.
- Describe strategies to achieve targets.
- Set annual improvement targets.
- Provide performance results.

The Postal Service has four strategic goals and associated objectives that are discussed in the following sections and detailed in its *Strategic Transformation Plan 2006 — 2010*:<sup>2</sup> generate revenue; reduce costs; achieve results with a customer-focused, performance-based culture; and improve service.

#### 1. Generate Revenue: Total National Revenue

The Postal Service must rely on the sales of its mail services to customers in competitive markets to generate the revenue necessary to support the natural growth of the universal delivery network at a rate of approximately two million new delivery points annually. Much like a utility, the price of postal products is set to cover costs. Unlike most other federal government agencies, taxpayer dollars do not fund Postal Service operations. Future improvements in volume growth and total national revenue generation depend on the health of the economy, competitor initiatives, Postal Service initiatives, and congressional action on pending legislation.

#### 5-YEAR TREND FROM 2001 – 2005 AND GOALS FOR 2005 – 2007

Economic trends and the timing of postage rate increases affect the revenue requirement on an annual basis. Postage rates have not increased since mid-2002, despite a turbulent economy that included increases in fuel costs, significant natural disasters that generated extra workload and replacement costs, and continuing initiatives by competitors that seek to make their products more attractive.

**Table 4-1 National Total Revenue to Plan Performance**

(\$ millions)								
2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target	2007 Preliminary	
Total Revenue								
65,869	66,688	68,764	69,029	69,993	Positive Plan	72,340	Based on 2006	
Percent to Plan								
97.0	96.9	97.6	100.2	102.4	Positive Plan	Positive Plan	Based on 2006	

Source: Annual reports and operating statistics.

From 2003 to 2005, the Postal Service benefited from Public Law (P.L.) 108–18, which adjusted overpayments to the Civil Service Retirement Fund. However, the benefit from this law has ended as P.L. 108–18 requires the “savings” from this legislation be placed into escrow starting in 2006.

In April 2005, the Board approved filing an omnibus rate case with the Postal Rate Commission, in which the revenue requirement was based solely on the ability to make the payment into the escrow account. On November 15, the Governors accepted the PRC’s decision and implementation was set for January 8, 2006. All rate requests were filed with the PRC according to their rules and regulations. Please refer to the PRC’s Web site at [www.prc.gov](http://www.prc.gov) for additional detail.

As the Postal Service becomes more customer-focused, it has developed additional customer and market data systems. The Postal Service intends to supplement its current revenue indicator, and different options will be examined and tested over the next several years.

#### 2. Reduce Costs: Total Factor Productivity

While generating sufficient revenues to cover costs, the Postal Service is also expected to provide service as efficiently as possible in order to sustain reasonable prices to customers. The Postal Service has adopted Total Factor Productivity (TFP) as an indicator of its efficiency. This comprehensive measure is similar to the Multifactor Productivity index used by the U.S. Department of Labor.

<sup>2</sup>The *Strategic Transformation Plan 2006–2010* describes the strategic goals, objectives, and strategies to meet those goals. The Plan also describes in detail the related indicators and measurement systems for performance results. The *2006 Annual Performance Plan* is a part of the *Strategic Transformation Plan 2006–2010* and will be updated annually. It can be found on [www.usps.com/strategicplanning/stp2006\\_2010](http://www.usps.com/strategicplanning/stp2006_2010)

TFP is a ratio of the workload to resources used and is impacted by many factors in the economy, including the growth in delivery points. As such, the gains in efficiency can be volatile year to year. The trend in Postal productivity shows continued improvement in each of the last 6 years, resulting in significant cost savings. As a result of these efficiencies and the Civil Service Retirement System cost reductions from P. L. 108–18, postage rates were last increased in mid-2002 and will not be increased until January, 2006.

positive improvement in the Postal Service workplace environment despite the challenges faced from increased staff reductions throughout its labor-intensive business. In addition, the percent participation in the VOE survey has steadily increased each year.

**Table 4-2 Total Factor Productivity Performance**

2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target	2007 Preliminary
1.7%	1.0%	1.8%	2.4%	1.1%	0.9%	Positive Plan	Positive Based on 2006

Source: Annual reports and operating statistics.

Note: Figures represent performance compared to each prior year. Historical data is subject to updates as certain data used in calculating productivity are periodically updated. 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 historical updates by these agencies. When historical updates are released, they are incorporated into the TFP calculation, which can result in historical TFP updates. TFP for the reporting year is also subject to update when final Postal Service cost data for the reporting year are available. Generally, this update occurs in April of the following year.

The target for 2006 is to continue with a 7-year trend of positive productivity, increasing performance over 2005. The preliminary 2007 target is to continue to extend productivity improvements and cost reductions, enabling the Postal Service to take \$1 billion out of the cost base each year through 2010 as committed to in the *Strategic Transformation Plan 2006–2010*. There are no major adjustments to the corporate goals, objectives, indicators, or measurement systems planned for 2006 or 2007. However, the Postal Service is refining additional performance objectives and indicators around operations quality, process standardization, and other activities below the TFP level.

### **3. Achieve Results with a Customer-Focused, Performance-Based Culture: Workplace Improvement, Developing People, and Safety**

The Postal Service strives to provide a workplace that encourages employees to give their best efforts to meet customer needs, provide service, and reduce cost. It is committed to a safe and secure workplace, developing its people, and enhancing performance accountability and recognition. Every Postal Service employee receives the opportunity to respond to a survey designed to assess progress in several aspects of workplace improvement. The VOE survey is conducted and analyzed by an independent firm under contract to the Postal Service. The survey is administered to one-fourth of all career postal employees every quarter, so that every employee is surveyed once a year. An index score is developed from positive responses to key survey questions. The 5-year trend shows continuous,



## Chapter 4

# 2005 Annual Performance Report and Preliminary 2007 Annual Performance Plan

**Table 4-3 Workplace Improvement Performance — Voice of the Employee Survey Ratings  
(Percent Favorable)**

2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target	2007 Preliminary
58.1	58.8	61.1	62.1	63.7	62.3	Better than EOY 2005	Better than EOY 2006

Source: Postal Service VOE Survey Index Ratings are from the end of each year (EOY).

Safety continues to improve within the Postal Service as evidenced by continued reductions in illness and injury rates.

**Table 4-4 OSHA Safety Performance — Illness and Injury Rate**

2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target	2007 Preliminary
8.8	8.0	7.3	6.6	5.7	6.3	Better than FY 2005	Better than FY 2006

Source: OSHA Reports, Postal Service Safety Performance Management. The Illness and Injury rate is calculated using a formula provided by OSHA: "Total number of illnesses and injuries multiplied by 200 thousand hours divided by the number of hours worked by all employees. The 200 thousand hours represents the number of hours 100 employees working 40 hours per week would work, and provides the standard base for calculating incidence rates."

Note: Rates are yearly averages. Some data varies from previous reports. Reasons include changes made to comply with OSHA requirement to show accidents in the year they occurred rather than the year reported and changes resulting from updated medical information and recordkeeping reviews.

Given that these are industry standards, there are no changes to the goals, objectives, indicators, or measurement systems planned for 2006 or 2007. With the long-term commitment required to engage and leverage the talents of its large workforce for business results, the Postal Service will set performance targets for 2006 and 2007 to build on the progress made through 2005.

#### 4. Improve Service: Timely, Reliable Delivery

The Postal Service has developed indicators, performance measurement systems, and targets for its premium services: First-Class Mail, Express, Mail, and Priority Mail. First-Class Mail results are reported publicly. Express Mail and Priority Mail performance results have been considered proprietary. However, under an agreement with the Postal Rate Commission's Office of Consumer Advocate, the Postal Service will begin to report service performance data for Express Mail, Priority Mail, and Packages Services later in 2006.

**Table 4-5 Service Performance — Percent Delivered On Time, by Service Commitment**

	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target	2007 Preliminary
First-Class Mail Overnight	94	94	95	95	95	95	95	Based on 2006
First-Class Mail 2-Day	85	85	90	91	91	91	92	Based on 2006
First-Class Mail 3-Day	81	80	88	89	87	90	90	Based on 2006

Source: U.S. Postal Service External Measurement System (EXFC). EXFC is a statistically reliable system conducted by a firm under contract with the Postal Service, and is designed to cover the ZIP Codes that generate and receive the most mail. It is validated by comparative analysis with the Postal Service's internal Origin-Destination Information System. EXFC performance results also generally correspond to results from the separate externally conducted Customer Satisfaction Measurement (CSM) survey. More detail is provided in chapter 2, section B.

Notes: Service performance scores are rounded for the full year, which is consistent with current Postal Service reporting conventions. Some previous reports did not round data. More detailed data, subject to seasonal exclusionary periods to reflect expected weather conditions and reduced airlift capacity (generally from late November to early February), are used internally. The table above corrects previous reports which mistakenly reported internal data for some previous years.

Before 2003, First-Class Mail 2-day and 3-day performance scores were combined and reported as a single score. Since 2003 the Postal Service has maintained separate 2-day and 3-day scores to better identify and address specific service issues. For consistency, the 2001 and 2002 results have been retroactively adjusted to show to separate 2-day and 3-day scores.

This report also adjusts previous scores that were based on the use of preliminary or unadjusted data due to the publication timing requirements of some previous reports. This integrated Comprehensive Statement/Performance Report eliminates such differences between documents.

Although performance results for Express Mail and Priority Mail have not been reported publicly, both have performance measurement systems and internal performance improvement targets. Express Mail is measured by the Product Tracking System (PTS), an internal measure of performance from acceptance at retail to delivery to a mailbox. All Express Mail is scanned at acceptance and delivery and all domestic ZIP Codes are included. The system is validated by the Express Mail Validation System, an external system that provides side-by-side comparisons of test piece results with PTS results.

Through 2005, Priority Mail has been measured by the Priority-End-to-End (PETE) system. However, in 2006 Priority Mail measurement will transition from PETE to the Delivery Confirmation Priority Mail—Retail (DCPM-R), a scanning system similar to that described above for Express Mail. PETE will be modified and used as an external validation system, similar to the system used for Express Mail. The changes will reduce costs, improve operational consistency, and increase sample size. PETE reported results primarily for flat-shaped Priority Mail. DCPM-R will expand coverage to other Priority Mail shapes.

As Postal Service delivery performance levels stabilize at historically high levels, the objective will be to maintain that level of service nationwide and to improve performance incrementally, where possible, at the local level. The Postal Service continues to investigate cost-effective performance measurement systems for other mail categories using existing barcode technology to enable passive scanning for all mail shapes.



# Index

address		capital investment.....	3, 46, 53, 61, 62, 63
Address Management System (AMS) .....	50, 51	Carrier Optimal Routing (COR).....	41
address quality .....	50, 51	Carrier Pickup.....	2, 31, 35
Address Change Service (ACS).....	14, 30, 39, 49, 50	Certified Mail.....	34, 35
Address Element Correction (AEC) .....	51	Civil Service Retirement System (CSRS).....	1, 9, 10, 65, 72
Address Management System (AMS) .....	50	Click-N-Ship.....	2, 35, 46
Coding Accuracy Support System (CASS) .....	51	collection boxes .....	19
FASTforward.....	50	collective bargaining .....	10, 15
change of address (COA).....	2, 39, 50, 51, 52	Combined Federal Campaign (CFC).....	11, 12
recognition.....	8, 26, 37, 38, 72	compensation.....	9, 12, 13, 15, 45, 59, 62, 66
undeliverable-as-addressed (UAA) .....	31, 39, 51, 63	complement management .....	14, 16
addressing		comprehensive statement .....	1, 52
recognition		CONFIRM.....	32, 34, 35, 49
flats.....	3, 37, 63	Consumer Advocate.....	73
ADVANCE Notification and Tracking System		Consumer Affairs.....	29
(ADVANCE) .....	41	contract postal units (CPU).....	16, 43, 45
Advanced Computing Environment (ACE) .....	48	Corporate Customer Contact (CCC) .....	29, 31
Advanced Facer Cancellor System (AFCS) .....	37, 39	Corporate Succession Planning .....	7
Advanced Leadership Program (ALP).....	6	Customer Connect.....	43
Advertising with Mail — Made Easy Seminar .....	30	customer satisfaction.....	1, 24, 30, 32, 42, 43, 64
American Postal Workers Union (APWU).....	6, 11, 12, 15	Customer Satisfaction Measurement (CSM)...	19, 22, 32
Amtrak.....	20	Customized MarketMail (CMM) .....	33
Annual Performance Plan.....	1, 3, 71	debt.....	61, 62
annual report.....	1, 3, 52	Decision Analysis Report (DAR) .....	53
anthrax .....	67	delivery .....	32, 34, 35, 36, 37, 38
Biohazard Detection Systems (BDS) .....	13, 26	40, 41, 45, 51, 73	
appropriations .....	57, 61, 65, 66	Delivery Bar Code Sorter (DBCS).....	37
Audits .....	53	Delivery Point Packaging (DPP) .....	40, 41
Automated Package Processing System (APPS) .....	38	Department of State.....	36
automation .....	1, 6, 24, 29, 33, 38, 40, 49	dependent care .....	10, 11
50, 51, 52, 61, 64, 68		direct mail .....	2, 14, 23, 33, 34
Automated Postal Center (APC).....	16, 43, 44, 45, 63	diversity .....	7, 8, 26
capital investment projects.....	3	Affirmative Employment Program .....	8
flat mail		Hispanic Program.....	8
Automated Flats Sorting Machine		National Awards Program for Diversity Achievement.....	8
(AFSM) 100.....	24, 37, 38, 49, 63	National Women's Program.....	8
Automatic Induction (AI) system.....	38	Special Emphasis Program.....	8
Automatic Tray Handling System (ATHS).....	38	supplier diversity .....	26
Flat ID Code Sort (FICS) .....	37	veterans.....	8
Flat Sequencing System (FSS).....	40, 41	Domestic Mail Classification Schedule .....	19
Flats Recognition Improvement		Domestic Mail Manual (DMM) .....	30, 47, 52
Program (FRIP) .....	3, 37, 63	eBay .....	35, 46
letter mail		eBuy .....	24, 25
AFCS-OCR .....	37	eFOIA Tracking System .....	29
Ink Jet Cancellor (IJC) .....	39	eLearning.....	7, 44
parcels		Electronic Verification System.....	39
Automated Package Processing		emergency preparedness .....	12, 61, 66, 67
System (APPS) .....	38	appropriations .....	57, 61, 65, 66
awards.....	7, 9, 14, 22	Biohazard Detection Systems (BDS) .....	13, 26
Bolger Center Media Unit .....	7	watch desk .....	14
Bank One Corporation.....	17	Employee Assistance Program (EAP) .....	11
Bank Secrecy Act (BSA).....	52, 53	employment .....	1, 6, 8, 15, 31
barcode.....	30, 35, 36, 37, 38, 41, 46, 49, 51, 74	reduction .....	12, 13, 22, 23, 25, 53, 59, 62
Barcode Certification .....	52	Enterprise Data Warehouse (EDW) .....	48
Biohazard Detection Systems (BDS) .....	13, 26	Enterprise Resource Management System (eRMS) .....	14
Board of Governors.....	2, 14, 17, 31, 47, 50, 63	Environmental Management Systems (EMIS).....	23
Bound Printed Matter.....	32, 33	Environmental Management Systems (EMS) .....	22
Business Connect.....	2, 43	Environmental Protection Agency (EPA).....	22, 23
business mail acceptance .....	53	Equal Employment Opportunity (EEO) .....	8, 15, 16
Business Management Guide (BMG).....	16	eReassign .....	6, 14
Business Service Network (BSN).....	2, 29, 43	Ergonomic Risk Reduction Process (ERRP) .....	12

# Index

Executive Mail Center Manager Program.....	29	licensing.....	42
Expanded Return Program .....	31	local area network (LAN) .....	49, 50
Express Mail.....	2, 21, 31, 32, 33, 34	Locatable Address Conversion System (LACS).....	51
Carrier Pickup .....	2, 31, 35	mail mix .....	57
revenue.....	36, 43, 57, 71	Mail Moment .....	34
volume.....	32, 35	Mail Processing Infrastructure (MPI).....	50
facilities		mail recovery centers (MRC) .....	30
Biohazard Detection Systems.....	13, 26	mail transport equipment (MTE) .....	22, 24, 40
bulk mail centers.....	47	Mail Transport Equipment Service Center (MTESS) .....	22
contract postal units.....	43	Mail Transport Equipment Support System (MTESS).....	22
Fair Labor Standards Act (FLSA) .....	9	mail volume.....	1, 20, 38, 43, 46, 57
Family and Medical Leave Act (FMLA) .....	10, 14	59, 61, 64, 67	
Federal Employees' Retirement System (FERS) .....	9, 10	Mailing Evaluation Readability and	
Federal Financing Bank.....	61, 62, 63	Lookup Instrument (MERLIN) .....	39
Federal Register .....	25	mailing industry .....	23, 29, 30, 35, 36
financial management.....	57	Mailer's Technical Advisory Committee (MTAC).....	30
Activity-Based Costing (ABC).....	52	Mailing Industry Task Force.....	30
appropriations .....	57, 61, 65, 66	management associations.....	11, 15
capital investments.....	3, 61, 62, 63	management interns .....	7
debt.....	61, 62	marketing.....	2, 34, 39, 43, 44, 49, 57
expenses .....	6, 9, 10, 16, 20, 21,	material handling .....	39, 40
income.....	36, 40, 43, 49, 52,	Media Mail .....	32, 35
reporting.....	59, 61, 63, 65, 67	Memo to Mailers.....	30
revenue.....	23, 61, 62, 64	military mail.....	21
First-Class Mail .....	1, 16, 18, 19, 31, 32	mobile data collection devices (MDCD) .....	50, 63
33, 34, 35, 39, 42,		Move Update .....	50
45, 46, 50, 57, 58,		MoversGuide Online.....	51
61, 68, 73		Multi-Channel Catalog Study.....	34
Flat Sequencing System (FSS).....	40, 41	Multifactor Productivity (MFP) .....	64, 71
flexible spending accounts (FSAs) .....	10	Multiline Accuracy Support System (MASS) .....	51
Freedom of Information Act (FOIA) eFOIA		Multiline Optical Character Reader (MLOCR) .....	37
Tracking System .....	29	National Accounts.....	32, 33
Government Accountability Office (GAO).....	53	National Address Database .....	50
Government Performance and Results Act (GPRA) .	1, 3, 71	National Association of Letter Carriers .....	12, 15
hiring .....	1, 6, 8	National Association of Postal Supervisors .....	15
Hold for Pickup.....	36	National Association of Postmasters of the United States .	15
Human Capital Enterprise/Human Resources		National Center for Employee Development (NCED) .....	6
Shared Services .....	63	National Change of Address Database .....	50
Improvement and Innovation Initiative.....	33	National Change of Address	
information based indicia (IBI) .....	46	Linkage System (NCOALink).....	50, 51
Ink Jet Cancellor (IJC).....	39	National Customer Support Center (NCSC) .....	52
Inspection Service .....	7, 11, 13, 14, 41, 53	National Firm Holdout program .....	33
insurance .....	2, 10, 35, 36, 45	National League of Postmasters .....	15
life .....	10	National Postal Forum (NPF) .....	29, 30
Integrated Data System (IDS) .....	38, 39	National Postal Mail Handlers Union (NPMHU).....	12, 15
Integrated Dispatch and Receipt (IDR).....	39	National Women's Program .....	8
Integrated Financial Plan.....	31, 52, 63	negotiated service agreements (NSA) .....	17, 20, 46
Intelligent Mail .....	3, 30, 37, 39, 48, 49, 50, 63	NetPost	
Interactive Voice Response (IVR) technology .....	14	CardStore .....	35
International Mail .....	36	Mailing Online .....	35
terminal dues .....	20, 21	Premium Postcards .....	35
transit charges .....	20, 21	Occupational Safety and Health	
Universal Postal Union (UPU).....	21, 22, 36, 37	Administration (OSHA) .....	12
labels .....	24, 35, 36, 45, 49	Office of the Inspector General .....	13, 53
labor relations.....	11	Office of Personnel Management (OPM) .....	10, 13
leave.....	10, 14, 35	Office of Workers' Compensation Program (OWCP) ...	12, 13
letter mail.....	37, 39, 40, 49	OneCode <sup>SOLUTION</sup> (OC <sup>S</sup> ) .....	49
Letter Recognition Enhancement Program (LREP) .....	37	OneCode Vision .....	49

Package Services .....	32, 33, 34, 35, 57	stamps.....	42, 45, 68
Hold for Pickup.....	36	Breast Cancer Research .....	68
Parcel Post.....	21, 32, 35, 36, 47	Heroes of 2001 stamp.....	68
Parcel Return Services (PRS).....	36, 47	Standard Mail.....	18, 31, 32, 33, 35
Parcel Select.....	36, 39		39, 41, 46, 57, 61
parcel barcode quality.....	36	Stop Family Violence stamp.....	68
passport application acceptance.....	44	strategic planning .....	3, 37
pay and benefits .....	9, 10	Strategic Transformation Plan	
bargaining unit .....	6, 9, 15	see Transformation Plan	
nonbargaining .....	9	supply chain management (SCM) .....	24, 25
PC Postage .....	30, 35, 45, 46	supply management.....	26
performance-based culture .....	4, 7, 9	Surface Air Support System (SASS).....	40
Periodicals .....	18, 20, 29, 32, 33	technology.....	6, 8, 14, 26, 30, 34, 37,
	35, 41, 46, 47, 57		39, 45, 46, 48, 49, 50,
Point-of-Service (POS) One.....	44		51, 64, 67, 74
Post Office .....	2, 3, 12, 16, 21, 25	telemetering .....	22
	29, 31, 32, 33, 34,	terrorist attacks .....	67, 68
	35, 36, 40, 43, 44,	Thrift Savings Plan (TSP).....	10
	45, 46, 51, 66	Time and Attendance Collection System (TACS).....	14
Postal Automated Redirection		toll-free numbers .....	31
System (PARS).....	24, 38, 39, 49, 63	Total Factor Productivity (TFP).....	61, 64, 71, 72
Postal Customer Council (PCC) .....	29, 30	training	
Postal Rate Commission (PRC).....	2, 3, 16, 17, 18, 19, 20	eLearning.....	7, 44
	31, 46, 47, 52, 71, 73	Orientation for New Employees (ONE).....	6
Postal Service Fund .....	62	Standardized Skills for Letter Carriers.....	6
PostalOne .....	39, 53	Transformation Plan .....	1, 3, 4, 61, 71, 72
PostalPEOPLE .....	14, 15	Transit Time Measurement System (TTMS).....	32
Preferred Accounts .....	32, 33	transportation.....	20, 21, 24, 26
Premier Accounts .....	32, 33, 43		38, 39, 40, 64
Premium Forwarding Service.....	2, 3, 17, 33, 46	Transportation Optimization Planning and Scheduling	
Priority Mail.....	2, 3, 16, 17, 19, 31, 32,	(TOPS).....	40
	33, 34, 35, 36, 46, 73	unions .....	1, 9, 11, 12, 15, 16
Priority Voluntary Transfer .....	6	Universal Computing Connectivity.....	25, 48
privacy .....	29, 53	upgraded flat sorting machine (UFSM).....	37, 38
Professional Specialist Intern (PSI).....	7	Vehicles .....	6, 13, 21, 22, 25, 40, 63, 64
Professional Specialist Trainee/ Industrial Engineer (PSTIE).....	7	veterans .....	8
purchasing reform .....	25	Video Relay Service (VRS).....	8
Quality Supplier Awards .....	24	violence prevention .....	68
ReadyPost.....	43	Voice of the Employee (VOE) .....	10, 73
real estate .....	23	Voluntary Protection Program (VPP).....	1, 12
Realty Asset Management (RAM).....	23, 24	watch desk.....	14
recycling .....	23, 24	Web Box Activity Tracking System (WebBATS) .....	44
Registered Mail.....	34	Web Complement Information	
remittance mail .....	33	System (webCOINS) .....	16
renovations.....	24	Web-enabled Energy Management	
Repositionable Notes (RPNs).....	18, 33, 46	Information System (WebEMIS) .....	23
Resolve Employment Disputes Reach		wide field of view (WFOV) cameras.....	37, 49
Equitable Solutions Swiftly (REDRESS) .....	16	workplace environment .....	1, 11, 16, 72
retail .....	16, 42, 43, 44, 45, 63	worksharing discounts .....	64
retirement systems .....	10	www.usps.com.....	1, 52, 71
revenue forgone.....	65, 66		
rural communities.....	16		
safety.....	1, 6, 12, 72, 73		
Biohazard Detection Systems (BDS).....	13, 26		
Ergonomic Risk Reduction Process (ERRP) .....	12		
Sarbanes-Oxley Act (SOX).....	53		
Securities and Exchange Commission (SEC) .....	52		
security.....	10, 12, 13, 25, 26, 41, 48		
special services .....	17, 43, 49		





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