1 p.m. . . . Friday . . . power's still out . . . there's a tree down in front of the house . . . phone's gone . . . but here comes my mail. Some things just don't quit!

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Introduction

In 1976 the Postal Service filed its first annual *Comprehensive Statement*. That was done in accordance with some changes to the original 1970 law, 39 U.S.C., that mandated that a comprehensive statement must accompany submission to Congress of the annual Postal Service budget and specified the contents of such statement. Now codified as 39 U.S.C. 2401 (e), the law requires that the *Comprehensive Statement* explain and address: (1) the plans, policies, and procedures designed to comply with the statutory mission of the Postal Service; (2) postal operations generally, 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 made 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* provides a summary of the initiatives, accomplishments, and challenges faced by the Postal Service the previous year. In short, it is the history of that particular year. To obtain a quick and succinct snapshot of how the Postal Service has changed over time, what policy decisions directed that change, and what influenced those policy decisions, one would first read all the *Comprehensive Statements* published since 1976.

The format of the documents has remained consistent. 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, and Chapter 4 is devoted to strategic planning, administrative, and management issues.

As the Postal Service addresses calls for greater public transparency to meet the needs of policymakers and stakeholders, it recommends a thorough reading of the *2003 Comprehensive Statement on Postal Operations*.

A. Fundamental Service to the People

1. General

Despite considerable challenges in 2003, including a difficult economy that contributed to a mail volume decline of some 600 million pieces, the Postal Service's continued focus on *Transformation Plan* activities resulted in significant success in service performance, customer satisfaction, cost management, and other key areas. Major milestones this year included legislation adjusting the Postal Service's payments to the Civil Service Retirement System (CSRS), the Postal Service Civil Service Retirement System Funding Reform Act of 2003 [Public Law 108–18], and the report of the President's Commission on the United States Postal Service.

Expansion of the postal delivery network continued with the addition of 1.9 million new addresses in 2003 even as the Postal Service enacted strong cost-cutting initiatives, including the reduction of 54 million work-hours, and still achieved record levels of performance in all measured service categories. In fact, during the second quarter, which coincided with widespread, extreme winter weather conditions, independently measured on-time overnight First-Class Mail delivery reached a new high of 95 percent — a level that was matched in the following two quarters. Customer Satisfaction Measurement, also independently measured, held at a record 93 percent during the first three quarters and jumped to 94 percent for the fourth quarter.

A focused program of cost management contributed to an unprecedented fourth consecutive year of growth in total factor productivity. Career employment was reduced to approximately 729,000 positions through attrition, the lowest since 1994. This

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represents a reduction of approximately 24,000 positions since 2002, and almost 70,000 since 1999, when career employment reached a peak of 798,000. Reconfiguration of the postal air transportation system resulted in savings of $200 million while supporting record service performance. A shift from traditional purchasing activities to supply chain management, which includes central purchasing for many key products and services, resulted in an additional $461 million in cost reductions, cost avoidance, and revenue generation, including $76 million of capital. The Postal Service reduced planned costs by a total of $2 billion in 2003, which included the workload savings associated with reduced volume.

The Postal Service Civil Service Retirement System Funding Reform Act of 2003 (Act), signed by the President on April 23, 2003, significantly affects Postal Service finances. The Act changes the way the Postal Service funds its Civil Service Retirement System (CSRS) obligation. According to a 2003 Government Accounting Office (GAO) report, the Postal Service had overfunded its pension obligation and, without this legislation, was on course to overfund by approximately $103 billion.

The Act also transfers to the Postal Service from the U. S. Treasury the responsibility for funding the costs of CSRS benefits that current and former Postal Service employees have earned through military service. Thus, the Act transfers $27 billion in cost from U. S. taxpayers to Postal Service ratepayers. Before this transfer was enacted, the Postal Service had overfunded its obligations to the Civil Service Retirement and Disability Fund by $10 billion.

Legislation has also enabled the Postal Service to pay down its debt by more than one third, from $11.1 billion at the close of the last year, to $7.3 billion this year. At the same time, refinancing of certain long-term obligations resulted in a $35 million reduction in interest expenses.

The Postal Service closed the year with a net income of $3.9 billion, reflecting the positive effect of the CSRS funding reform legislation referenced above. Even without this legislation, actions taken by the Postal Service to manage its finances would have resulted in a positive net income of $900 million, which is $300 million greater than the $600 million plan.

In December 2002, the administration announced the creation of the President's Commission on the United States Postal Service. The President's Commission's objective was to advise the President on the state of the Postal Service, prepare a report articulating a vision for the future of the Postal Service, and recommend the legislative and administrative steps necessary to enact reform needed to ensure the viability of postal services.

The President's Commission held a series of nine public meetings throughout the nation over a period of eight months and heard from a wide range of postal stakeholders, as it examined every aspect of the Postal Service's operations. Witnesses included the postmaster general, Postal Service governors, other senior officers of the organization, leaders of postal unions and management associations, representatives of the mailing industry, competitors, academics, and economists.

In July, the President's Commission issued its final report to the President containing its recommendations for the changes its members deem necessary to protect the nation's access to affordable, universal mail service long into the future. By September, Congress began a series of hearings to explore the President's Commission's recommendations, many of which would require legislative action for implementation.

The President's Commission concluded that the Postal Service business model, created by the 1970 Postal Reorganization Act, is in need of change. The Postal Service agrees that the Act's basic assumption, that the costs of a continually expanding delivery base will be offset by the increasing revenue from continued mail volume growth, is no longer valid. Instead, the Postal Service is delivering fewer pieces of mail to more delivery points.

With that in mind, the Postal Service continued to introduce innovative products and services that provide customers with more reasons than ever to use the mail. These efforts reflect the Postal Service's *Transformation Plan* strategy of pursuing growth by adding value for postal customers.

One of the year's initiatives was the implementation of the first negotiated service agreement (NSA). This innovative pricing strategy provides mailers with customized rates and services that address their unique mailing needs and encourages cost-efficient practices, such as electronic — rather than hard copy — return of undeliverable-mail data, resulting in savings for the mailer and for the Postal Service. This first NSA, with Capital One Financial Services Corporation, features discounts for First-Class Mail volume above an annual threshold of 1.225 billion pieces and new requirements on the mailer for address correction.

Other new product offerings that make the mail a more attractive channel include Repositionable Notes and Customized MarketMail. Repositionable Notes permit direct mailers to enhance their mailpieces by applying "sticky notes" to their mailings. Since the notes can be easily removed from the envelope, the recipient can place them in a convenient location, such as on the phone, computer, or refrigerator, as a reminder of the mailer's offer. Customized MarketMail expands mailers' creative options by allowing the use of colorful, uniquely-shaped, attention-getting direct mailpieces that let their messages stand out from all the others.

The Postal Service also implemented a new merchandise return service, known as parcel return services. The new service helps streamline the mail handling process by providing discounts for mailers who pick up returned parcels when they mail packages at a designated postal facility, avoiding the need — and expense — of the Postal Service delivering the returned packages to the mailer's address.

Customer convenience remained a key service focus as the Postal Service continued its use of technology to make transactions easier, quicker, and more convenient. In addition to online address changes, customers can now place temporary holds on mail delivery through the Postal Service's Web site, *www.usps.com*. The use of this Web site has increased by 38 percent over last year. Click-N-Ship, which allows customers to print Priority Mail labels right from their own computers — with or without postage — has added carrier pick-up service to the stable of already popular features such as no-fee electronic Delivery Confirmation. Mailers can also receive e-mail notifications for delivery of items shipped via Express Mail, Delivery Confirmation, Signature Confirmation, Certified Mail, and Registered Mail services. Click-N-Ship volume continues to grow, with a 370 percent increase over last summer. The increase in the use of these alternate channels decreases the transaction cost compared to traditional channels.

The Postal Service is also relying on cutting-edge technology to enhance the safety and security of the mail — both for employees and customers — in the wake of the 2001 anthrax attacks. The Washington, D.C. vast Curseen-Morris Processing and Distribution Center (P&DC), formerly Brentwood P&DC, was successfully decontaminated in December 2002. Mail processing operations returned to the building following completion of a major facility renovation. The complex and innovative technology used to decontaminate the Washington plant was transferred to New Jersey's Trenton P&DC for a similar decontamination effort.

The Postal Service successfully tested new technology for the detection of biohazardous materials in mail at major processing facilities throughout the nation. The Biohazard Detection System, which operates in conjunction with mail canceling equipment, continually draws in air from around the mail during the cancellation process. Using sophisticated genetic analysis, the system tests the air samples to determine if anthrax is present. If so, the facility is immediately evacuated, the flow of mail is halted, and necessary steps are taken to protect postal employees, customers, and the nearby community. The Postal Service has worked closely with community first responders to

coordinate the rapid and effective response to possible anthrax contamination when detected by the Biohazard Detection System. The results of the tests are being analyzed prior to the anticipated deployment of Biohazard Detection Systems to major mail processing facilities nationwide.

The Postal Service is also testing a ventilation and filtration system. By creating a closed environment around mail as it moves through a processing facility, this technology limits the potential threat of employee exposure to aerosolized biohazards such as anthrax. Used in conjunction with the Biohazard Detection System, ventilation and filtration equipment would add an invaluable layer of protection for postal employees.

Through a year of concentrated focus on service and costs, the Postal Service assured that the nation it serves continues to receive affordable, quality mail service.

2. Board of Governors

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

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

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

Government Fiscal Year 2003 started on October 1, 2002, and ended on September 30, 2003. The Board held regular, monthly meetings in each month of 2003 except for the month of July. Each regular monthly meeting consisted of two sessions that were usually held on the first Monday and Tuesday of the month. The first session was closed to the public in accord with the provisions of the Government in the Sunshine Act and the second session was open to the public. Altogether there were 21 days of regular meetings in 2003. Seven of the regular monthly meetings were held in Washington, D.C. The regular meeting in October 2002 was held in Memphis, Tennessee; February 2003 in Las Vegas, Nevada; March 31 and April 1, 2003, in Chicago, Illinois; and August 2003 in Portland, Maine. In addition, the Board held four special meetings. The special meeting on July 21, 2003 was held in McLean, Virginia. All of the other special meetings were teleconferences that originated from Washington, DC.

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

In October 2002, the Board approved funding for biohazard detection systems, the Calendar Year 2003 meeting schedule and the Office of the Governors 2003 budget.

In November 2002, the Board approved adjustments to the salary ranges of all officers, and research and development funding for flats sequencing and delivery point packager. The Board also approved funding for Surface-Air Support System Modification, Network Operations Enterprise Data Warehouse, and for POS One – Stage 3.

At its December 2002 meeting, the Board approved the audited 2002 financial statements, the *2002 Annual Report* and the 2004 appropriation request to Congress. The Board also approved funding for Flats Recognition, Flat Feeder Enhancement, and renewal of the lease for the Rockefeller Center Station in New York City.

In January 2003, S. David Fineman was elected Chairman of the Board and John F. Walsh was elected vice chairman. The governors approved Postal Rate Commission Opinion and Recommended Decision in Docket No. MC2002-3, Experimental Periodicals Co-Palletization Dropship Discounts. The Board approved a resolution on capital funding, the *2002 Comprehensive Statement on Postal Operations* and additional funding for the Northern New Jersey Metro Processing and Distribution Center.

In February 2003, the Board approved funding for Labor Scheduler – Phase 1.

In March 2003, the Board approved a filing with the Postal Rate Commission for Customized MarketMail. The governors also approved a price for the *Stop Family Violence* semipostal stamp.

At the March 31 and April 1 sessions, the Board approved funding for the Ventilation and Filtration System for Mail Processing Equipment and Self Service Platform – Automated Postal Center. The Board also approved advance funding for the James A. Farley Processing and Distribution Center Sale Transition and Redevelopment.

In May 2003, the Board approved resolutions updating the charters of its three standing committees. The Board approved a filing with the Postal Rate Commission for a Parcel Return Experiment. The Board also approved funding for Mail Processing infrastructure and 6,240 carrier vehicles.

In June 2003, the governors approved the Postal Rate Commission Opinion and Recommended Decision in Docket No. MC2002-2, Experimental Rate and Service Changes to Implement Negotiated Service Agreement with Capital One Financial Services Corporation. The Board also approved funding for the Sales Support Solution. At a special meeting on June 27, 2003, the governors approved Postal Rate Commission Decision and Recommended Opinion Approving Stipulation and Agreement in Docket No. MC2003-1, Customized MarketMail Minor Classification Changes.

In August 2003, the Board approved a plan for restructuring Postal Service debt and a continuity of operations plan (COOP). The Board approved funding for Flats ID Code Sort and Automatic Tray Handling Systems to enhance the capabilities of automated flat sorting machines. The Board also approved a new Processing and Distribution Center and a new Vehicle Maintenance Facility in Philadelphia. The governors selected David C. Williams to be the new inspector general of the United States Postal Service.

In September 2003, the governors approved the operating budgets for the Office of the Inspector General (first quarter only) and the Postal Rate Commission. The governors also approved Postal Rate Commission Opinion and Recommended Decision in Docket No. MC2003-2, Experimental Parcel Return Services. The Board approved the *Five-Year Strategic Plan, FY 2004–2008*, including the *2004 Annual Performance Plan* in compliance with the Government Performance and Results Act (GPRA) of 1993. The Board approved the Postal Service 2004 operating and capital investment plans. The Board approved a borrowing resolution and the preliminary 2005 appropriations request. The Board also approved funding for Advanced Facer Canceller System improvements.

3. Strategic Planning

The Office of Strategic Planning supports the postmaster general, the Executive Committee, and the Board of Governors in the strategic planning process. The

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annual management planning cycle generates reports that comply with the Government Performance and Results Act (GPRA) of 1993.

table 1-1 management annual planning cycle

	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.
Establish	Set preliminary targets for next year							Set final targets for next year				
Deploy				Negotiate requirements and develop budgets for 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								

a. The Government Performance and Results Act

GPRA requires the Postal Service to submit specific reports to Congress:

■ The first Postal Service *Five-Year Strategic Plan* developed for GPRA was published in September 1998. The Act requires strategic plans to be updated at least every three years. The current update, which covers the period 2004–2008, was presented to Congress on September 30, 2003. The current *Five-Year Strategic Plan* incorporates the efforts outlined in the *Transformation Plan*, April 2002, and includes the *Annual Performance Plan* for 2004.

■ The *Annual Performance Report* for 2003 is included in this *2003 Comprehensive Statement on Postal Operations*.

■ The preliminary Performance Plan for 2005 is included in this *2003 Comprehensive Statement on Postal Operations*. The final *Annual Performance Plan* for 2005 will be published on September 30, 2004.

b. Strategic Analysis and Support

The Office of Strategic Planning provides support for the development of functional plans and training programs that provide a longer-term strategic perspective among postal managers and executives. The Office also conducts studies and analyses of issues and trends that influence the Postal Service's ability to achieve its mission and goals. The Office also manages an outreach program that discusses these issues and trends with key stakeholders.

c. Transformation

In April 2002 the Postal Service delivered to Congress a *Transformation Plan* that took a systematic look at the challenges facing the Postal Service in the future. The Plan addressed possible structural changes to the organization, but it focused on near term strategies that the Postal Service can implement under current law. Through three major overarching initiatives — Growth Through Customer Value, Increase Operational Efficiency, and Enhance Performance-Based Culture, and a supporting strategy — Enable the Organization — the Postal Service adopted a blueprint for every aspect of Postal Service business. The postmaster general and the Executive Committee meet regularly to review transformation strategies and substrategies and have aligned the budget, the *Annual Performance Plan*, and the *Five-Year Strategic Plan, 2004–2008,* with transformation goals and objectives.

B. The Workforce

1. Opportunity

a. Attracting the Right Applicants for the Right Jobs

To promote and showcase the Postal Service as a major competitive employer, critical upgrades were made to the Postal Service Web site at *www.usps.com*. These upgrades included redesign of the navigational toolbar and placement of a *Jobs* button on the *www.usps.com* home page. The redesign provides separate sections for internal and external applicants who want to learn more about available job opportunities and related information. Applicants have a direct link to specific job requirements and information about how to apply for exams.

b. Postal Application and Scheduling System

The Postal Application and Scheduling System (PASS), originally implemented in January 2001, collects applications for examinations, as well as casual and temporary employment opportunities. PASS has streamlined and standardized the test application process at a substantial cost savings. It protects sensitive application information, reduces cycle time between application and examination, and provides a national Web-based scheduling component with an automated fulfillment process for mailing applicant scheduling packages. Since implementation, PASS has processed more than 12,000 examinations and collected information for casual and temporary openings from more than 1.4 million applicants. Human Resources continues to enhance the functionality of PASS. In fact, in 2003, a new automotive mechanic examination was added to PASS.

c. Employment Opportunity Enhancements

During 2003, the Postal Service released a *Reasonable Accommodation* kit containing two revised and two new publications. The revised documents, Handbook EL-307, *Reasonable Accommodation, An Interactive Process*, and Publication 317, *Manager's Guide to Reasonable Accommodation*, are important parts of Postal Service policy to ensure compliance with statutory requirements and to assist postal managers and supervisors in making appropriate decisions in matters of reasonable accommodation. The new materials, Publication 316, *Reasonable Accommodation in the U.S. Postal Service, A Guide for Employees and Applicants*, and Poster 315, *The Reasonable Accommodation Process*, address the Postal Service's policy on reasonable accommodation and identify the personnel whom applicants and employees should initially contact to request a reasonable accommodation.

Given the concerns of the American public, thorough and effective suitability screening has never been more important. During 2003, the Postal Service developed and released a comprehensive suitability screening package to highlight the importance of careful and complete suitability screening and to assist field offices in their screening efforts.

The Postal Service is piloting the newly-developed Maintenance Skills Development Program (MSDP) in four locations — Houston, New York, Denver Processing and Distribution Center, and Denver Bulk Mail Center. MSDP is designed to provide basic technical skills training to career employees with the aptitude and interest in pursuing a skilled maintenance career path. Assessment exams were administered to approximately 400 employees. Registers were created from qualifying test scores and 59 students began the training program in June 2003. The training sessions have concluded and students who successfully completed the training are in the process of applying for the targeted positions under the Maintenance Selection System (MSS) procedures. Concurrently, evaluation efforts are underway for validation and research purposes prior to further expansion of the program.

d. Technical and Craft Education

The Postal Service's National Center for Employee Development (NCED) achieved a 34 percent increase in people trained in 2003. Teaching employees to use the Postal Service's new Outlook e-mail system was a huge national effort. Approximately one-half of the 32,000 people trained on Outlook took e-learning courses. New courses on programmable logic controllers and executive mail center management drew external clients, including the National Aeronautics and Space Administration and private firms. In all, NCED offered 270 courses, in 2,555 course offerings, for 64,440 students.

Efforts to build revenue and expand beyond core technical courses drove success in the NCED goal to become more self-sufficient. More than $2.4 million was generated from non-postal clients.

To support the Postal Service's core business and employee learning, NCED delivered automation, facilities, and motor vehicle maintenance and operations courses on major Postal Service systems. Offerings supported safety and environmental compliance, plus technical and administrative classes for postal supervisors. The number of information and network technology programs available increased. Building the workforce's basic technical skills was a major new focus.

Expanding e-learning course offerings was also a major initiative. NCED offered more than 700 e-learning courses through a contract with Learn.com, in addition to e-learning courses developed by postal staff. In all, 20,000 students enrolled in postal e-learning courses in 2003. This is more than triple the number of 2002 e-learning students.

NCED satellite and audio distance learning networks again supported the Postal Service with training and information broadcasts. The 274 course offerings through these media accounted for more than 136,000 hours of training during the year.

e. Management Training

The Postal Service's *Transformation Plan* calls for sweeping changes that will likely have a significant impact on customers, employees, and other stakeholder groups. To lead the organization through these challenging transitions, Postal executives will have to demonstrate unparalleled skills and leadership savvy. This fact, and the potential turnover of current executives due to demographic trends, makes development of postal executives more critical than ever.

The new Executive Development Program (EDP) is a comprehensive leadership development experience. Its first component begins with a standardized foundation experience, "Leading People Through Transformation." The next three components are tailored to the specific knowledge and skill needs of individual executives. "Postal Connected Leadership" connects executives to key stakeholders and opens paths to cross-functional networking and collaboration. "Executive Competency Development" provides internal and external development opportunities aligned with the 31 critical competencies identified in the Postal Service's Executive Competency Model. "Executive Coaching" provides coaching opportunities tailored to the needs and preferences of the individual executives. The Executive Development Program was launched in February 2003, and since then, 255 Postal Career Executive Service (PCES) managers have completed the first component. New EDP groups are scheduled monthly, with the largest numbers of executives scheduled to begin during 2004.

The Advanced Leadership Program (ALP), the Career Management Program (CMP), the Processing and Distribution Management Program, and the Associate Supervisor Program (ASP) continue to meet the training and development needs of postal managers and supervisors.

The ALP has been the Postal Service's premier leadership development initiative since 1998. It targets successful mid-level managers who demonstrate high potential for assuming greater responsibility. Like EDP,

the ALP's content is aligned with the Postal Service's Executive Competency Model. Participants in the ALP's four-week, classroom-based training are also required to complete 15 credits of college level courses prior to graduation from the program. Through partnership with accredited local universities, college credit courses are available at the Bolger Center for Leadership Development. Completion of the four weeks of resident training required for ALP also entitles participants to 12 undergraduate college credits through the American Council on Education. Since its inception, 60 groups have completed the first phase of the program. Fifty-five of these groups have completed Phase 2. Also, 295 ALP participants submitted certificate of completion forms with official transcripts, signaling their completion of all program requirements for the November 13, 2003, graduation. This brings the total number of ALP graduates to 1,036.

The Career Management Program (CMP) has addressed the needs of supervisors and managers in the EAS 15 – EAS 22 range since 1999. Participants enter the program on one of three different tracks determined by results of an assessment based on the leadership competency model. The CMP includes one week of classroom instruction for each track and elective courses on specific leadership topics.

The Processing and Distribution Management Program focuses on the core operational aspects of the plant manager position. The program familiarizes plant manager candidates with all functional areas and provides appropriate reference materials and tools. Classroom lecture is combined with real world experiences and learning is quickly demonstrated in projects and structured on-the-job instruction by plant managers designated as trainers. The participant receives a macro view of facility operations and planning, expands knowledge of support functions, and develops a strategic plan for change. Individuals identified for the positions of manager, Processing and Distribution Facility, EAS-23; manager, Processing and Distribution Center, EAS-25; and manager, Processing and Distribution

Center, PCES-1 are eligible to attend. There were two offerings this year, with 58 participants completing the course.

The Associate Supervisor Program (ASP) began in 1996 as part of the Postal Service's commitment to provide equal opportunity for all employees. Its structured selection process includes 16 weeks of classroom and on-the-job training to prepare first-line supervisors for the responsibilities of their positions. There are three components of ASP. The first two weeks are classroom-based and polish leadership and management skills. The next six weeks provide functionally-specific training, balancing each day of classroom theory with four days of hands-on experience in active work environments. The final eight weeks focus on safety, labor relations, injury compensation and workplace violence awareness. The ASP's success has driven its growth into the universal postal vehicle for selection and training of new supervisors. All 80 districts participate in the program which now boasts 12,573 graduates. ASP is now certified for six college credits by the American Council on Education.

ASP is currently utilized as the standard for recruiting and developing internal and external talent for critical initial-level supervisor vacancies in Operations and Customer Service. To assist in recruiting the most qualified talent for ASP, a new recruitment toolkit was developed and released during 2003. The toolkit includes a job overview video, information for applicants, and recruitment tips for ASP coordinators. Coordinators have access to the toolkit online on the Postal Service Intranet.

Postal Service supervisors, managers, executives, and officers each received at least 20 hours of training in 2003. Safety continued to be a prime training target in 2003. Safety training now uses a standard online source of information to combine just-in-time content with formal online and classroom instruction. Very specialized training assisted management and bargaining unit employees in transitioning back to facilities once closed due to anthrax contamination.

f. Training and Technology

The Postal Service's Learning Management System (LMS) is an integrated, Web-based learning management system offering robust training administration, learner self-service, and training management capabilities. Its goal is to provide training administrators and employees with a comprehensive tool for planning and tracking training at both corporate and individual levels. Features include event management, career planning, transcripts and certifications, course catalog management, system security, and access to eLearning content. The LMS was piloted in April 2003 and is now routinely used in Headquarters, Headquarters-related offices, the Eastern Area office, and Pittsburgh District Office. Nationwide expansion is expected by the end of December.

The Postal Service's contract with the Federal Training Network brings to Postal Service employees at all levels courses in leadership, diversity, safety, customer service, and other general business content. Enrollments for 2003 totaled 127,586.

g. New Intern Programs

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

At the end of 2003, all of the original 22 management interns hired in June 2002 had completed 16 months of the 24-month Management Intern Program. In 2003 there were 2,508 Postal Service and non-Postal Service applicants to the Program, of which

308 went through an assessment process. Eighty-seven finalists from the assessment center were interviewed by the areas. Thirty successful candidates were hired and began the program in June 2003. Twelve (12) additional candidates were hired in November, 2003. The Professional Specialist Intern Program recruited for three positions in 2003. Recruitment for the 2004 Management Intern and Professional Specialist Intern Programs began in October 2003.

h. William F. Bolger Center for Leadership Development

The Center continues to generate revenue from non-Postal Service customers. In 2003 revenue from non-Postal Service customers was $7 million. Approximately 38,194 people passed through the Center and of that number, 23,342 were Postal Service customers and 14,852 were external customers. This resulted in a total of 67,540 room nights, an increase 5,994 over last year's total. The Center's largest repeat customers continue to be Lockheed Martin and SAIC (Science Applications International Corporation). Added to the list this year were the Department of Education, Internal Revenue Service, and American Management Association. The number of postal customers will continue to rise as the Center expands its offering of training programs to meet Postal Service requirements.

There were three new courses introduced at the Center during the past year. "Leadership Training for Managers" is a three-day training session that provides instruction in the tools and skills of management. "Coaching/Counseling and Motivating Employees" is a two-day training session for new and experienced supervisors and managers who want to influence, direct, teach, or motivate employees. The "Business Writing" course is a one-day class developed for business professionals. The class provides techniques and skills to help add clarity and power to business writing.

More than 65 hours of airtime was utilized to produce 39 Postal Service Television Network broadcasts, aired for the first time during the year related to Address Management, Sales, Law, Delivery and Retail, Business Mail Acceptance, and Employee Resource Management (ERM). The Media Unit also partnered with USPS-TV to broadcast a bi-monthly COO (chief operating officer) Update. This series features up-to-the-minute financial information along with interviews with postal managers and customers. The unit also produced 29 video productions, several of which won prestigious *Videographer* and *Telly* awards for production excellence. The media unit also partnered with Headquarters Marketing to produce a pilot video for the Postal Lobby Network.

i. Succession Planning

Corporate Succession Planning (CSP) is a process for identifying and developing a pool of qualified EAS and Postal Career Executive Service (PCES) employees for future leadership positions. It is a process that is open, fair, inclusive, transparent, and standardized, yet highly competitive and performance-based. The CSP process addresses one of the Postal Service's key transformation challenges to develop and maintain a pool of well-prepared potential successors at all levels of the organization. In 2003, the Postal Service unveiled a new CSP process that is designed to effectively respond to future vacancies. Some of the new features include: self-nomination; automated Individual Development Plans; and a state-of-the-art leadership assessment and development tool.

j. Postal Career Executive Service

There were 884 individuals in the PCES ranks at the close of 2003. Of this total, 753 individuals held PCES-I positions. The remainder (other than officers) served in EAS positions. There were 39 PCES-II officers in the Postal Service at the end of the year.

2. Diversity

a. General

The Postal Service must continue to grow the business and develop new technology while rapid changes in demographics, attitudes, and economics continue to reshape American society. The Postal Service adjusts to these changes so that it can continue to be a high-performing service provider that fully develops and capitalizes on its diverse human potential.

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

The Postal Service will continue to focus on three principal strategies: investing in its workforce, strengthening succession planning, and building the business. In an effort to align its strategies with operations and effectively respond to the challenges posed by transformation imperatives, the Postal Service is focusing on the following initiatives:

- *Ensure that there is representation of all groups at all levels.* Ensure an inclusive workforce in leadership positions by building employee awareness of the availability of programs and incentives. Educate and motivate postal management to identify management candidates and encourage them to support their development.

- *Achieve a harassment- and discrimination-free environment.* Ensure the administration of a work climate that is fair and free from unlawful and inappropriate behavior.

- *Enhance workforce management.* Provide guidance in managing change and implementing organizational changes in the workforce.

■ *Strengthen customer and community relations.* Support the Postal Service's drive toward business success by providing the resources for understanding and reaching its diverse marketplace.

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

b. National Diversity Recognition Program

Since 1996, the Postal Service National Awards Program for Diversity Achievement has recognized the outstanding achievements and contributions of those individuals and teams that have encouraged and promoted diversity within the organization. Since its inaugural year, the awards program has recognized 230 employees nationwide across five award categories: Individual, Leadership, Team, Partnership, and the Dot Sharpe Lifetime Achievement Award.

In 2003, this employee-based program was redesigned to focus on the three overarching strategies that are aligned with the *Transformation Plan*: Growth through Customer Value, Operational Efficiency, and Performance-Based Culture. Eligibility is based on excellent performance in achieving diversity goals as they focus on the customer, the employee, and the business. The National Diversity Recognition Program is the largest peer recognition program within the Postal Service. It demonstrates the promise and strength of the organization and the importance of sharing values and building unity.

c. Employment of Individuals with Disabilities

The Postal Service uses regular competitive procedures in selecting individuals with disabilities for employment. Individuals with targeted severe disabilities receive noncompetitive employment consideration through referrals from individual state departments of vocational rehabilitation or the Department of Veterans Affairs. In 2003, the Postal Service's career workforce included 46,445 employees with reported disabilities, and 7,015 employees with targeted severe disabilities.

Equal Opportunity Publications hailed the Postal Service as one of the top 20 government agencies for individuals with disabilities. *Careers and the Disabled* magazine also gave the Postal Service an outstanding employer award. Each year, the Postal Service submits an affirmative employment plan and an accomplishment report for Individuals with Disabilities to the Equal Employment Opportunity Commission (EEOC). The affirmative employment plan is disseminated to Postal Service field performance clusters where each cluster leader is responsible for its implementation.

d. Veterans' Employment

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

e. Affirmative Employment Program

The Affirmative Employment Program (AEP) provides national guidance and administers the Affirmative Employment Plan of the Postal Service. During 2003, the Postal Service implemented the following initiatives to encourage the retention of a diverse workforce:

■ Streamlined and standardized the AEP multi-year plan report process. Being granted conditional approval from the EEOC for report consolidation, the number of reports for the AEP multi-year plan and/or yearly report of accomplishments and plan update required for submission dropped from 96 to 11.

■ Completed and submitted the *Affirmative Employment Program Plan Update and Report of Accomplishments for 2003*. This report listed accomplishments and updated activities identified in the *Multi-Year Plan, 2002–200*5, submitted to the EEOC. The accomplishment and update addressed the affirmative employment plan for handling sexual harassment, discrimination complaints, recruitment and hiring, employee development, promotions, separations, retention, program evaluation, and workforce representation.

■ Published and distributed the affirmative employment plan and report of accomplishments for the AEP for Individuals With Disabilities to Postal Service management and the EEOC.

■ Published and distributed the affirmative employment plan and report of accomplishments for the AEP for Disabled Veterans to Postal Service management and OPM.

■ Provided each area an integrated framework that standardized the field specialist duties and responsibilities. This framework continues to emphasize identifying and removing barriers, and providing technical guidance to improve the AEP planning process with an increasing emphasis on employee development activities.

■ Developed and deployed workforce analysis workbooks, along with being in the final development stages of a Web-based AEP reporting system that will provide ease-of-use reporting and reduce the time currently used to prepare those reports. The system will be ready for rollout in 2004.

■ Enhanced and revised the affirmative employment activity report, which is used to monitor field activities.

■ Developed a Web-based quarterly workforce profile report, down to the performance cluster level, that extracts data from the Diversity Reporting System (DVRS). This report provides detailed statistical information on Postal Service employees that includes profiles by grade level groupings, new hires, promotions, separations, development activities, and trends. Statistical information from DVRS is provided upon request to the GAO, EEOC, Congress, and other external and internal customers.

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

1. National Hispanic Program

Through its National Hispanic Program, the Postal Service provided centralized information, guidance, and direction to the field Hispanic Program specialist and Diversity Professional Field Network through communications and publications, training, seminars, workshops, and teleconferences. Through these communications, ideas, concerns, and best practices were shared with national focus on recruitment, hiring, training, development, promotion, and retention of Hispanics.

The Postal Service sponsored or attended recruitment and community outreach activities nationwide. Recruitment activities included coordinating workshops on the Battery 470 exam; Postal Service Form 991, *Application for Promotion or Assignment;* and preparation of Individual Development Plans.

The Postal Service also either sponsored or actively participated in several national events that involved the League of United Latin American Citizens (LULAC), Image, National Council of La Raza (NCLR), National Hispanic Society, Hispanic National Bar Association, National Organization for Mexican American Rights (NOMAR), National Hispana Leadership Institute (NHLI), and the TIYM Publishing Co., Inc. Hispanic Yearbook. These outreach activities develop Postal Service employees, introduce the Postal Service to these organizations and communi-

ties, and establish the Postal Service as a leader among businesses in addressing the needs of the Hispanic community.

In 2003, the Postal Service was presented with a leadership award for being a long-time partner with the National Hispana Leadership Institute (NHLI), for its commitment to the education and leadership development of Hispanic women, and for its commitment to the Hispanic community.

As a result of the growing demand for Publication 295, *Hispanic People and Events on U.S. Postage Stamps*, the booklet was revised and the *César E. Chávez* and *Desi Arnaz* stamps were added to the collection. This booklet celebrates many of the Hispanic people, places, and achievements that have been honored on postage stamps.

Through the National Hispanic Program's field network, partnerships with Hispanic organizations and associations, and community relationships, the Postal Service met transformation challenges in a changing, diverse, and competitive environment. In 2003, specialists were successful in partnering with other functional areas to promote Postal Service products and services to the growing Hispanic market segment. The specialists were instrumental in identifying in-language material requirements that directly align the organization with the needs of the Postal Service's Hispanic customers. Through these multicultural initiatives, the National Hispanic Program has helped the organization reduce transaction cost, increase customer satisfaction, improve service, and generate new revenue.

2. National Women's Program

As one of the Special Emphasis Programs, the workforce analysis, program plans, and accomplishments of the Postal Service's National Women's Program are reported in the Affirmative Employment Program (AEP) reports to the EEOC annually. These reports reflect actions and events pursued by the Postal Service as it attempts to ensure that women have equal access to opportunities in hiring, development, promotion, and success at all levels of the postal workforce. These efforts help identify and remove barriers that

may interfere with this equal access, while providing tools and information. Programs, reporting, and activities are executed at Headquarters and through area- and district-level diversity development specialists.

The program strategy has been redirected as follows:

- Integration of all Special Emphasis Programs.

- Focus on careers and career development.

- Programmatic support for development and promotion opportunity.

- Headquarters-initiated training of field specialists.

- Automation of data and AEP reporting processes.

Program accomplishments that reflect this redirection include local career conferences, celebrating National Women's History Month, and emphasis on career and developmental options. Opportunities for women to further their postal careers include implementation of local skills banks, pilots of centralized detail selections based on skills banks and skills matching, and the pilot of a local, self-nominating Future Leaders Program. This also includes the update and distribution of Publication 512, *Women on Stamps*.

3. Special Emphasis Program

The Special Emphasis Program focused on recruitment, retention, and promotional opportunities for African Americans, American Indians and Alaskan Natives, Asian Americans and Pacific Islanders, people with disabilities, veterans, and white males. White females and Hispanics are addressed by the Women's Program and the National Hispanic Program. Major accomplishments of the Special Emphasis Program in 2003 include:

- Development of a multi-year strategic plan and update for the White House Initiative on Asian Americans and Pacific Islanders, per executive order 13216.

- Employee career/leadership confer-ences as part of the White House Initiative on Asian Americans and Pacific Islanders, to promote an inclu-sive work environment.

- Four diversity publications to educate the public on historic figures featured on stamps: Publication 354, *African Americans on Stamps*; Publication 512, *Women on Stamps;* Publication 154, *Get Stamps on the Go*; Publication 528, *Veterans and the Military on Stamps*; Publication 295, *Hispanic People and Events on U.S. Postage Stamps.*

- Partnership with national special-emphasis organizations to increase multicultural access to Postal Service employment opportunities, products, services, and supplies.

3. Compensation and Benefits

a. Pay Comparability

1. Bargaining Unit Employees' Pay and Benefits

The average pay and benefits for career bargaining unit employees is $69,222 per work year.

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

2. Nonbargaining Unit Employees' Pay and Benefits

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

In 2003, a new pay consultation with management associations concluded with the focus on market based and performance-driven pay systems. The salary structure continues the pay reform strategy outlined in the *Transformation Plan* and reflects the general criteria as outlined in the report of the President's Commission on the United States Postal Service.

3. Executive Pay and Benefits

Due to the limit imposed on PCES salaries by the Postal Reorganization Act, pay and benefits for Postal Service officers and many executives do not meet private sector comparability standards. During 2003, the average salary for Postal Service officers was $156,000. The average executive salary was $119,000.

In 2003 a new pay for performance plan was implemented for officers and executives that supports the Postal Service *Transform-ation Plan* and the President's Commission on the United States Postal Service recom-mendations in building a performance-based culture.

4. Performance Evaluation System

In 2003, the Postal Service introduced a pay-for-performance strategy for executives focusing on two elements: the National Performance Assessment (NPA) to measure corporate and unit indicators and the Performance Evaluation System (PES) to measure core requirements. Together, they serve as the foundation for measuring overall performance, providing focus on individual results, clear expectations and outcomes. In NPA, corporate and unit indicators are estab-lished and performance against targets is reported in the Web Executive Information System (WebEIS). In PES, stretch objectives and performance targets supporting the executive's core requirements are defined by both executive and evaluator at the beginning of the evaluation period. PES tracks the exec-utive's accomplishments to stated objectives and captures performance against agreed-upon targets. This line-of-sight performance strategy using both NPA and PES will apply to nonbargaining employees beginning 2004.

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b. Leave Programs

Postal Service employees are provided both sick and annual leave at the same rates as other federal sector employees. However, Postal Service employees have a higher annual leave carryover limit than their federal sector counterparts. Postal Service employees used an average of 10.77 days of sick leave per career employee during 2003.

Earned annual leave may be donated to other career or transitional Postal Service employees who have exhausted their own leave due to a serious health condition. Postal employees donated over 302,000 hours of annual leave in 2003 to other Postal Service employees with serious health conditions.

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

Postal Service career nonbargaining unit employees and some bargaining unit employees can participate in a leave exchange program. This allows a portion of annual leave that would otherwise be earned in the following year to be exchanged for cash. There were approximately 23,000 bargaining and nonbargaining employees that participated in the 2003 leave exchange program.

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

c. Health Insurance

Health care contributions, including Medicare taxes, for current employees totaled $4.526 billion or 9.0 percent of the Postal Service's total pay and benefits during 2003.

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

Under the Omnibus Budget Reconciliation Act of 1990, the Postal Service is required to fund the annuitants' share of the Federal Employee Health Benefit premiums. The cost of funding the health care benefits for postal annuitants and their survivors in 2003 was $1,133 million.

d. Life Insurance

The Federal Employees Group Life Insurance program provides life insurance coverage for Postal Service employees. The Postal Service assumes the full cost of basic life insurance for eligible employees. During 2003, Postal Service costs for employee life insurance were $194 million and cost of funding life insurance for postal annuitants and their survivors was $9 million.

e. Retirement Systems

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

At the end of 2003, there were 727,763 career employees covered by a federal retirement program. Of this total 505,728 employees (69 percent) were covered by the Federal Employees Retirement System (FERS); 211,913 employees (29 percent) were covered by the Civil Service Retirement System (CSRS); 10,122 employees (2 percent) were covered by CSRS Offset.

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

FERS is a retirement system with both defined benefit and defined contribution components. Under FERS, employees receive

retirement benefits from a federal retirement annuity, Social Security, and the Thrift Savings Plan. The FERS annuity benefit, while also based on an employee's high-three average salary and years of service, produces a smaller benefit than CSRS.

The Postal Service and career employees make retirement contributions to the Civil Service Retirement and Disability Fund. For 2003, CSRS employees contributed 7.0 percent of basic pay to the Fund. FERS and CSRS Offset employees contributed 0.8 percent of basic pay to the Fund and 6.2 percent of gross pay to Social Security (up to the Social Security wage maximum).

f. Thrift Savings Plan

All career employees may participate in the Thrift Savings Plan (TSP), which is administered by the Federal Retirement Thrift Investment Board. The rules for TSP participation differ depending on the employee's retirement system. For FERS employees, the Postal Service contributes an amount equal to 1 percent of basic pay to TSP, fully matches employee contributions up to 3 percent of basic pay, and matches one-half of employee contributions from 3 to 5 percent of basic pay. In 2003, FERS employees could contribute up to 13 percent of basic pay to TSP on a tax-deferred basis, subject to IRS maximum limits. The Postal Service does not match CSRS or CSRS Offset employee contributions or any TSP Catch-Up contributions to the TSP. In 2003, CSRS employees' contributions were limited to 8 percent of basic pay. At the end of 2003, 450,156 FERS employees and 141,698 CSRS and CSRS Offset employees participated in TSP. In addition, during 2003, the Postal Service implemented the TSP Catch-Up provision for eligible TSP participants age 50 and older. This program allowed an additional $2,000 of pre-tax basic pay to be contributed to TSP. There were 6,953 FERS employees and 7,542 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 2003, 61,317 employees were enrolled in health care FSAs (a 1.6 percent increase from 2002), with an average annual contribution of $1,502.00. In 2003, 5,075 employees were enrolled in dependent care FSAs (a 9.9 percent decrease from 2002), with an average annual contribution of $2,664.00. Employees experience tax savings which vary according to the individual's contribution amounts and marginal tax rates.

4. Environment

a. 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-level counselors. Counselors are available 24 hours a day, seven days a week, in convenient locations to assist employees and family members with difficulties that affect their personal lives and their work, including emotional, financial, legal, chemical dependency, marital, and family problems.

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 that include conflict resolution sessions and organizational interventions and restorative actions, such as debriefings after a critical incident (e.g.,

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suicide, domestic violence at work, armed robbery, and accidental death). In 2003, 50,326 employees and their family members received counseling from the EAP.

Forty-nine percent of employees reported some type of work problem that affected their work performance. EAP staff responded to more than 280 critical incidents and provided assistance to more than 10,200 employees after these incidents. Health and wellness seminars on topics ranging from stress management to elder care to substance abuse were provided to 50,500 employees.

The Office of Workplace Environment Improvement (WEI) was created in September 1998 to reflect management's commitment to improving the postal work environment and bringing focus to "people issues" in the Postal Service. Recently the work of the EAP and WEI were combined under one manager and the office was renamed EAP/WEI. The function includes the EAP, violence prevention and crisis management activities, the identification and propagation of indicators, and measures and initiatives for workplace environment improvement. Key components of EAP/WEI for 2003 and 2004 continue to be:

■ Coordination and implementation of Strategy 5 milestones (Build a Highly Effective and Motivated Workforce) in the Postal Service *Transformation Plan*.

■ Development of the role of the employee workplace intervention analyst position to play a more strategic and consultative role in the field.

■ Integration, assessment, and communication of employee feedback and other workplace environment information.

■ Support for replication of a broad array of workplace improvement initiatives and practices.

■ Communication of progress in improving workplace environment.

Specific areas in which these components are carried out are as follows:

b. 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/WEI, uses a standardized protocol for the identification and resolution of potential "troubled worksites." These are Postal Service sites that may be susceptible to threatening or other undesirable behavior as a result of individual or systemic problems. The efforts of the committee, in concert with area and local personnel, resulted in resolution at 24 sites in 2003. In addition, EAP/WEI assists the field in ensuring that local threat assessment and crisis management teams are in place and that desired training is provided. Finally, EAP/WEI staff members continually respond to potential threats and crisis incidents throughout the Postal Service to ensure prompt response, swift resolution, and maximum safety of Postal Service employees.

The Postal Service continues to implement the recommendations made by the Commission on a Safe and Secure Workplace, also known as the Califano Commission. Communication regarding changes is ongoing.

c. National Sexual Harassment Prevention

The Postal Service is committed to increasing awareness and preventing sexual harassment in the workplace, and fostering an environment where all employees treat each other with dignity and respect. The organization strives to create a workplace where no one is subjected to sexual harassment. Education is the key to raising the awareness level of all postal employees through training, posters, publications, videos, service talks, and print media.

In 2003, the Postal Service developed and implemented the following proactive strategies for the administration of a work climate that is free from inappropriate and unlawful behavior.

■ Enhanced workforce management by training all diversity professionals on diversity's role in supporting sexual and workplace harassment policy.

■ Ensured that training is delivered and tracked so that all employees can understand what constitutes sexual harassment, what are its repercussions and what they can do to prevent sexual harassment and inappropriate behavior.

■ Partnered with the Federal Training Network in providing training opportunities to the field.

■ Reviewed statistical data from all sources (VOE survey, EEO complaints, etc.) and provided follow-up in any areas requiring intervention and remedial training.

■ Revised all pertinent policies and other directives to reflect up-to-date initiatives.

■ Distributed new sexual harassment prevention training resources and posters nationwide.

■ Prepared unifying messaging for the Postal Service workforce and customers and disseminated it through all available medians of communication.

The Postal Service continues to promote its policy on sexual harassment, to ensure that all employees understand that the organization will not tolerate sexual harassment, any inappropriate sexual conduct, or reprisal in the workplace.

d. Integration of Employee Feedback and Workplace Environment

EAP/WEI staff members serve as internal consultants to increase the efficiency and effectiveness of WEI efforts nationwide. Also,

EAP/WEI disseminates information about resources for addressing workplace environment issues, including local and national Postal Service initiatives and external sources. Finally, EAP/WEI will continue to deliver national messaging in 2004, to ensure that the business case for improving the workplace is recognized and accepted.

e. Dependent Care

Pursuant to a memorandum of understanding (MOU) negotiated with the American Postal Workers Union (APWU), AFL-CIO for the 1998–2000 National Agreement, the Postal Service and the APWU jointly selected a vendor to provide a dependent care resource and referral service to management and APWU-represented employees. The service allows employees to get assistance in locating dependent and elder care resources as well as a variety of options to help balance work and home life. The MOU remains in place through November 2005.

f. VOE Survey

Every three months, a quarter of the career employee population receives the Postal Service's Voice of the Employee (VOE) survey at their work locations. They complete the survey on the clock and return their results in sealed individual envelopes. A vendor develops reports based on quarterly results that help monitor perceptions and trends. Six survey questions form an index score that gauges the Postal Service's success to measure motivated, productive, and inclusive workforce indicators. WebEIS posts survey results each quarter.

In 2003, the national VOE survey results rose 2.3 points from 58.8 in 2002 to 61.1. The overall response rate also increased 3.8 percent from 57.3 percent to 61.1 percent. Results reflect steady gains in employee perceptions of supervisors' ability to communicate, employee treatment, recognition, and accountability, as well as a significant reduction in perceptions of sexual harassment. Analyzing survey results helps identify organizational issues and plan improvement strategies.

g. Combined Federal Campaign

The Postal Service joins other federal agencies in the Combined Federal Campaign drive each fall. For calendar year 2003, Postal Service employees nationwide pledged a total of $38,477,992 in payroll deductions to the charities of their choice. The average gift was $203.

h. Safety

In 2003 the Postal Service continued to experience remarkable improvement in its safety program. Programs were developed targeted at reducing accident/injury incidents. 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 how to avoid injuries and illness.

The Occupational Safety and Health Administration (OSHA) Injury and Illness frequency rate is 7.05 per 100 employees. This is down 12 percent from last year and equates to 9,358 fewer OSHA Illnesses and Injuries. In the past two years the Postal Service has reduced the total number of OSHA Illnesses and Injuries by 19,725.

The Postal Service motor vehicle accident frequency rate is 10.07 per million miles. Despite significantly worse weather, this is down 3.3 percent from last year and equates to 435 fewer motor vehicle accidents. In the past two years the Postal Service has reduced total number of motor vehicle accidents by 2,892.

The *Safety Depends on Me* video campaign, part of the Postal Service overall employee safety and health communication program, continued to win numerous private sector industry video awards. In 2003 the Postal Service received two Tellys and two Aurora awards. This makes a total of four national and four international awards since starting the *Safety Depends on Me* campaign in September 2001. The *Safety Depends on Me* campaign provides employees with just-in-time safety and health information.

Employees are now holding themselves responsible for safety and it is working. Kits containing a timely video, poster, and safety talk have been prepared and distributed, and an internal home page was created and serves as an extension for promoting the campaign.

To help reduce the number of OSHA Injuries and Illnesses incurred by letter carriers, the Postal Service entered into a joint partnership agreement with the National Association of Letter Carriers (NALC). This resulted in the establishment of a joint task force composed of representatives from both parties. The joint task force is co-chaired by a representative from the Postal Service and a representative from the NALC. In May 2003, the Postal Service signed a letter of intent with the NALC for the establishment of a one-year pilot program in the Eastern Area. The pilot program was established based on recommendations put forward by the joint task force.

Safety and health inspections and program evaluations are also key tactics for reducing injuries and illnesses. The Postal Service implemented a unique technology for conducting inspections and evaluations with the use of handheld computers and Web-based reporting. More than 500 safety specialists were issued handheld computers and trained on conducting inspections and evaluations using electronic checklists. The results are reported and compiled using Web technology, which is also used to update safety information on the handheld devices. The Safety Toolkit enables rapid and effective inspections and abatement of deficiencies.

The Postal Service continued to deal with the fallout of the terrorist attacks of 2001. The anthrax attacks still affected Postal Service employees, operations, and facilities. The Curseen-Morris (C-M) and Trenton facilities remained closed. The C-M facility was successfully fumigated and cleared for reoccupancy. Extensive renovations of C-M continued throughout the summer (including a transition safety and health plan developed with input from OSHA) and the plant reopened in late 2003. The Trenton facility is has been fumigated and plans are to reopen

in 2004. There were significant safety and health precautions implemented at both facilities.

In 2003 the Postal Service continued to be impacted by reports of "suspicious" powders and other suspected bio/chemical agents in the mail, requiring response by postal resources and external emergency first responders. Several facilities were evacuated for false alarms. The Postal Service implemented procedures for such incidents, and required emergency "tabletop" exercises to ensure plans were in place and responses were appropriate.

As part of the *Emergency Preparedness Plan* (EPP), the Postal Service continued development of the Biohazard Detection Systems (BDS), and Ventilation Filtration Systems (VFS) for incoming mail processing equipment. This required intensive safety and health involvement in the development of response plans, emergency action plan training, and coordination with federal and state public health officials on decontamination and medical follow-up. Antibiotics were deployed for all BDS pilot sites in conjunction with the Centers for Disease Control and Prevention (CDC) and local health officials. (The details of the EPP and BDS were previously discussed in Section A, Fundamental Service to the People.) As BDS and VFS are deployed nationally in 2004 the safety program will be heavily involved.

The Postal Service continued to address safety issues involving irradiated mail. Procedures for the irradiation process were improved, active ventilation of the mail was improved, and ongoing monitoring ensured that there were no harmful employee exposures to irradiation byproducts. The Postal Service worked with the National Institute of Occupational Safety and Health (NIOSH) to ensure that government workers receiving irradiated mail were not exposed to harmful levels of byproducts.

The postal Safety and Health Program continued to have significant involvement with emergency management improvements as well as requirements dictated by the Department of Homeland Security (DHS). The Postal Service established an Emergency Management Committee and Workgroup which included safety representatives. Plans are underway to integrate emergency action plans, COOP, and crisis management plans into one *Integrated Emergency Preparedness Plan* (IEMP) at the Performance Cluster and installation level. This will support Homeland Security's National Response Plan, required of federal agencies in calendar 2003. To lay the groundwork for IEMP, the Postal Service trained an additional 217 management personnel in emergency management fundamentals.

Work precautions were planned and instituted, based on the Homeland Security Advisory System that included safety and health as well as security elements. This included emergency notification for employees who are off premises (e.g., carriers).

Postal safety and health experts continued to work with DHS, Health and Human Services (HHS), CDC, OSHA, NIOSH, and other agencies on public health/homeland security issues such as "Medical Surge" capabilities, anthrax guidance, Federal Response Plan, Postal Service responsibilities, and biohazard detection and response.

i. Voluntary Protection Program

The Postal Service partnered with OSHA to implement their prestigious Voluntary Protection Program (VPP) in several postal facilities. OSHA awards this exclusive recognition only to those facilities that have implemented the very best safety and health programs in industry. Significant positive results have already been attained in the first sites. Specifically, labor relations and productivity have improved at these facilities and they have achieved a 20 percent to 50 percent reduction in recordable injury and illness incidents. Another benefit of this program is improved employee relations that result from the cooperative involvement of management, OSHA, and unions working together to implement the program.

To date, five Postal Service facilities have met the demanding criteria of VPP. These include the Pittsburgh Air Mail Center, Albany

Vehicle Maintenance Facility, Scranton Processing and Distribution Facility (P&DF), Glenns Falls Post Office, and Baton Rouge P&DC. OSHA site evaluation teams have recommended the Northern Hub and Spoke and Hickory P&DF, Montgomery P&DC and Rochester P&DC for entry into the VPP, pending approval by the assistant secretary of labor. Three additional facilities have submitted applications to OSHA and are pending evaluations.

Elements of the programs include management leadership and employee participation, worksite analysis, hazard prevention and control, and safety and health training. The elements complement the Postal Service Safety and Health Program Evaluation Guide (PEG) and facility inspection programs. OSHA has accepted the PEG as an excellent tool to meet the requirements of the VPP.

The VPP has positive implications for the Postal Service. To achieve Star status, an OSHA designation, facilities must demonstrate exemplary safety and health programs and meaningful employee participation. Meeting these criteria and the required continuous improvement will drive ongoing breakthrough illness and injury performance, resulting in reduced workers' compensation costs.

j. Ergonomics Risk Reduction Process

The Postal Service, APWU, National Postal Mail Handlers Union (NPMHU), and OSHA have signed a landmark Ergonomic Strategic Partnership to work together to reduce employee musculoskeletal disorders (MSD) and injuries at major Postal Service mail processing facilities. This historic, groundbreaking agreement is one of the first of its kind in both the public and private sectors in which labor and management will work together to take proactive steps to prevent injuries. Employee driven teams have identified and corrected numerous ergonomic risk factors in their work units, and the Postal Service is already experiencing impressive results. The first ten facilities have decreased their OSHA Recordable MSD rate per 100 employees by almost double the national decrease.

Critical to the success of the *Transformation Plan*'s Performance-Based Culture Strategy 10 is a reduction in the rate of increase in workers' compensation costs. MSDs associated with ergonomic risk factors account for about 40 percent of injuries and illnesses among postal employees. The Ergonomic Risk Reduction Process (ERRP) office was established within the ERM function in late 2002 to identify and control these ergonomic risk factors at postal facilities.

Recognizing the effect of MSDs on the workforce, the Postal Service also initiated an Ergonomic Strategic Partnership (ESP) to identify and control ergonomic risk factors. The members of the partnership are the Postal Service, the NPMHU, the APWU, and OSHA. This historic partnership agreement was signed April 4, 2003. The partnership's goal is to encourage and assist the Postal Service in the reduction of injuries and ergonomic related hazards.

Specifically, the ESP process is designed to accomplish the following goals at participating Postal Service worksites:

- Improve the safety and health environment so that OSHA, the Postal Service, NPMHU, and APWU can work together to reduce MSDs.

- Identify tasks and conditions where MSD incidents occur and develop and implement ergonomic control processes to reduce or eliminate MSD incidents.

- Train local Postal Service managers, supervisors, NPMHU and APWU representatives, and the local Joint Labor-Management Safety and Health Committees to ensure understanding of ergonomic risks and control processes.

- Reduce the number of MSD related incidents, thereby reducing the number of days away from work for both lost workday and restricted duty cases associated with MSD incidents.

- Develop and evaluate best proven practices to be implemented in other Postal Service facilities with similar ergonomic issues.

- Train local employees as appropriate to participate in the ergonomic risk reduction process.

The process was implemented in 20 sites in 2003. The process will be started in another 32 sites in 2004, 40 sites in 2005, 40 sites in 2006, and 43 sites in 2007. In addition to reducing risk factors and MSD incidents at those sites, the Postal Service will share the lessons learned among the facilities at other worksites that have implemented ERRP.

As of the end of 2003 the Postal Service had trained more than 10,600 employees at the 20 initial sites. Of the total, approximately 2,100 were managers, the rest were from the clerk, mail handler, maintenance, and vehicle services areas.

Also in 2003, 527 task analyses were conducted, with 236 fixes implemented and 108 quick fixes implemented locally at little or no cost. When applicable, these fixes are being shared with other sites.

k. Injury Compensation

In 2003, the Postal Service had an increase in workers' compensation cash outlays of approximately $62.9 million (8.3 percent) over 2002, for a total cash payout of $822.7 million. Total paid compensation claims increased by 1,307 (4.3 percent), and total medical claims increased by 814 (0.6 percent). Although it is anticipated that workers' compensation costs will continue to rise, the Postal Service reduced the combined growth rate of compensation costs and medical costs in 2003 from a 9.3 percent growth rate in 2002 to a 6.6 percent growth rate in 2003.

The Postal Service's cost control strategy was directed toward efforts to contain workers' compensation costs and manage disability cases. The National Reassessment Initiative is reviewing all injured employees in limited duty and rehabilitation positions to ensure that they are properly classified

according to their limitations. As of August 2003, 26,710 limited duty and rehabilitation cases had been reviewed with the following results: 9,617 immediately returned to full duty, and 15,815 were placed in productive assignments.

The Postal Service has been working more closely with the Office of Workers' Compensation Programs (OWCP) to enhance the rehabilitation of injured employees who cannot be accommodated within the Postal Service into private sector assignments.

The Postal Service also has an agreement with OWCP and First Health Corporation, the nation's largest preferred provider organization, to help reduce workers' compensation medical costs. The program originally was operational in four OWCP district offices and was expanded nationwide July 1, 2002. Since inception through September 30, 2003, the program has returned more than $1.4 million to the Postal Service and avoided more than $48 million in medical costs.

l. Workers' Compensation Fraud

Postal inspectors seek prosecution for workers' compensation fraud, as prosecution provides the best deterrent and prevents the resumption of benefits. Prosecution is most successful in cases where the allegedly disabled claimant is receiving outside earnings and failing to report them to the Department of Labor. Workers' compensation

table 1-2 fradulent workers' compensation — YTD August 31, 2003

Front-end schemes resolved	223
Front-end cost savings	$ 10,327,564
Long-term schemes resolved	190
Long-term cost avoidance	$151,989,412
Arrests	42

fraud also occurs when employees misrepresent the extent of their physical abilities. Through the end of 2003, Postal Inspection

Service investigations resulted in $152 million in long-term cost avoidance and $10.3 million in front-end cost savings.

5. Planning

a. Workforce Initiatives

During 2003, the Postal Service continued to focus on its core business. As part of this process, it began to reshape and reposition its field organization and workforce to help meet its future staffing requirements. Some of the major initiatives undertaken during 2003 were:

1. Area Office Distribution Networks Operations

A redesign of the Distribution Networks Operations (DNO) network staff was implemented to update the function and prepare for the future. The business expectations for meeting higher-level competencies in logistics theory, data and statistical analysis, and network optimization are more important today for employees within the DNO offices. Employee Resource Management (ERM), in partnership with operations developed the implementation plan and provided essential assistance in establishing core competencies for the function. The implementation was completed in early fall 2003.

2. District Consolidations

With the decrease in the career-on-rolls complement, from 787,000 to 729,000 over the past three years, it became necessary to reassess the resources needed for administrative staffing. On July 26, 2003, five district offices were closed. Their territories and workloads were absorbed by 11 continuing districts. ERM was instrumental in providing a smooth transition with the development of placement guidelines, early retirement options, and the overall implementation plan. By the closing date of November 14, 2003, 94.6 percent of the affected employees found an appropriate voluntary resolution.

3. Facility Service Offices/Administrative Service Offices

The plan to merge these two mission critical field functions is well on its way. The plan calls for a rolling implementation. Facility Services has piloted and deployed reshaping strategies in one area and plans to continue these efforts nationally in 2004. ERM will provide the necessary tools to get employees in the right job at the right time.

b. Enterprise Resource Management System

The Postal Service's future success as an organization will be influenced significantly by its ability to use workhours efficiently and to maintain stability in staffing relative to workload. To support this goal, the Integrated Resource Management (IRM) program has been successfully deployed to 95 sites, covering more than 621,000 employees in August 2003. This success was built on the 19 pilot sites implemented in 2000 and expanded to 102 sites in 2002. IRM entails a comprehensive process that combines two major components: leadership and technology.

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

Under the technology component of the IRM initiative is the enterprise Resource Management System (eRMS), an automated system used to assist supervisors and managers in plants and Post Offices to record, track, and manage the leave administration process. During 2003, sites implementing eRMS have reduced sick leave

usage by more than 1.5 million hours and experienced a savings of approximately $31.5 million (average sick leave hourly rate).

Several eRMS integration efforts with other application systems (e.g., Time and Attendance Collection System, Employee Ideas (eIDEAS) Program, Injury Compensation Performance Analysis System) are in progress or have been completed to provide the users with an extensive resource tool. Future plans for Resource Management entail the next generation of technology, which involves an interactive voice response (IVR) technological system to produce better program efficiency and cost effectiveness. The multi-faceted concept plan for Resource Management's next generation is well under way with anticipated deployment in February 2004.

c. Family and Medical Leave Act

An outgrowth of the resource management process was the standardization and consistent decision-making process involved with administration of the Family and Medical Leave Act (FMLA). Between 2000 and 2003, administration of the FMLA was moved from a decentralized base of approximately 25,000 first-line supervisors to approximately 160 FMLA coordinators located in the attendance offices. These FMLA coordinators were provided with an intensive 24-hour training course where they received instruction about the complex FMLA laws and policies. With the advent of the FMLA coordinators, line supervisors had more time to perform their operational duties.

As the resource management process continues, the vision is to provide an integrated approach to link the Time and Attendance Collection System and other components from injury compensation databases with eRMS. This will provide a robust tool to build a solid, effective management foundation to manage daily business operations and reduce costs. Further eRMS enhancements are anticipated in 2004 to provide users with even more information in a cost-efficient way.

As part of the 2003 vision and beyond, a blueprint for the next generation of Resource Management was mapped out and approved by senior management. The end result will enhance operational efficiency for FMLA administration and reduce costs by eliminating the majority of the manual transactional tasks. These tasks will be diverted to a fulfillment center. In essence, the program will allow more productive time for the FMLA coordinators to manage their heavy caseloads and provide better service to employees.

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

d. Human Capital Enterprise/HR Shared Services

The Postal Service supports more than 200 human resources (HR)/payroll processes with more than 70 systems. This nonintegrated environment causes inefficient and redundant work done by a large network of employees. In addition, two major systems, the Complement Management System (CMS) and the Payroll System, were built 20 years ago. This creates risk in terms of system flexibility and the ability to provide long-term support because of technical obsolescence.

Each performance cluster has a human resources function that includes safety, personnel (including benefits administration), training, injury compensation, equal employment opportunity, and labor relations. Estimates indicate that at least 3,500 full-time equivalents (not all HR employees) perform routine/repetitive transactions.

The backbone of the Human Capital Enterprise initiative is the implementation of a commercial-off-the-shelf Enterprise Resource Planning (ERP) solution that will incorporate HR functionality for all Postal Service employees into a single integrated system. A knowledge management system

will also support employee and manager self-service. Together, these systems will support the implementation of shared services by providing the technology to automate and streamline processes in order to shift routine and repetitive HR transactions to self-service and a service center.

The new ERP system will provide a comprehensive HR solution in a Web-enabled environment, streamline processes, eliminate duplicate data, improve reporting capability and efficiency, and automate data entry and collection. This will be accomplished by replacing CMS and replacing or integrating other HR-related applications that reside in legacy systems.

6. Labor Relations

a. Collective Bargaining

The Postal Service has nine collective bargaining agreements with seven unions covering approximately 707,000 employees. Negotiations with Postal Service unions cover a full range of topics involving wages, benefits, and conditions of employment.

In April 2003, the Postal Service and the NPMHU reached a tentative agreement to extend the current 2000–2004 National Agreement for an additional two years. The extension agreement was ratified in May 2003 by NPMHU members. The agreement provided for two additional general wage increases of 1.3 percent — the first effective November 27, 2004, and the second effective November 26, 2005. The extension agreement also provided for four additional cost-of-living allowance (COLA) increases under the existing COLA formula with two payments each in 2005 and in 2006. Eligible employees will receive uniform allowance program increases of 2.5 percent in November 2004 and in November 2005. The Postal Service and the NPMHU also agreed to work together to address workforce repositioning issues and to create a joint task force to review and discuss issues related to the implementation of the reassignment provisions of Article 12. The parties signed an MOU that allows for two additional bids (applying for vacant positions) during the

contract. The agreement, covering nearly 57,000 employees, is now due to expire November 20, 2006.

Contract extension agreements were also reached with two smaller bargaining units represented by the APWU. A one-year contract extension was ratified in March 2003 covering the 100 employees under the Operating Services, Headquarters and the Facility Services, Merrifield, VA, collective bargaining agreement. The extension agreement provided for one additional general wage increase of 1.3 percent effective November 27, 2004. The extension agreement also provided for two additional COLA increases to be paid in 2005. Eligible employees are also due to receive a 2.5 percent increase to the Uniform Allowance Program. The current agreement expires November 20, 2005.

The other extension agreement was reached with the 1,200 APWU employees covered under the Information Technology/Accounting Service Center's collective bargaining agreement. The one-year contract extension was ratified in March 2003. The extension agreement provided for one additional general wage increase of 1.3 percent effective November 27, 2004. The extension agreement also provided for two additional COLA increases to be paid in 2005. The current agreement expires January 20, 2006.

Negotiations with the Fraternal Order of Police, National Labor Council, USPS No. 2, which represents approximately 1,000 postal police officers for a successor collective bargaining agreement that expired on April 9, 2003, reached impasse. The impasse will be resolved through further discussions between the parties or by utilization of the dispute resolution procedures of the Postal Reorganization Act.

The Postal Service and the National Association of Letter Carriers (NALC) will publish the fifth edition of the Postal Service-NALC *Joint Contract Administration Manual* (JCAM), which will be distributed to every city delivery unit in the system in early 2004. First negotiated and published in 1998 and updated each year thereafter, this contract

guide has been widely used in the field, and it has been crucial to the parties' goals of reducing workplace disputes.

Similar in purpose and scope to the JCAM, the Postal Service and the NPMHU completed a Contract Interpretation Manual (CIM) in July 2003. The parties are conducting joint training on the CIM for management and union officials nationwide. In addition, for the sixth consecutive year the parties cohosted the annual Quality of Work Life Conference.

b. Consultation with Management Associations

In accordance with 39 U.S.C. 1004, a program of consultations was conducted throughout the year with each of the management organizations representing postmasters, managers, supervisors, and other nonbargaining employees. These sessions provided an opportunity to participate directly in the planning, development, and implementation of programs and policies affecting the more than 80,000 managerial employees in the field. The resident officers of the National Association of Postal Supervisors, the National Association of Postmasters of the United States, and the National League of Postmasters of the United States collaborated with senior management in support of this effort. In addition to regular program consultation, EAS pay consultations were conducted in 2003, resulting in a new pay-for-performance system for all EAS employees starting with 2004. This process, utilizing the National Performance Assessment program, combines elements of the former merit pay program and the variable pay program into one system. As with previous pay consultations, the Postal Service partnered with the management associations to formulate a fair and equitable compensation package that balances individual and corporate needs with the Postal Service's mandate to provide pay comparable with the private sector. Each management association will continue to take an active role in the development of new programs and policies at the Headquarters and field level as members

of work teams and national task forces that will recommend necessary improvements to make the Postal Service successful.

c. Equal Employment Opportunity

The Office of Equal Employment Opportunity (EEO) and the REDRESS (Resolve Employment Disputes, Reach Equitable Solutions Swiftly) program experienced another successful year in 2003. The number of EEO pre-complaint counselings continued to decline, as did the number of formal complaints. Counselings decreased by 8 percent. The 2003 decrease in formal complaints, as of August, was more than 15 percent fewer than the same period the year before.

The use of the REDRESS mediation program, which incorporates non-Postal Service contractors as mediators, contributed to increased dispute resolution, further diminishing the need for elevation of complaints to the formal level. Although the REDRESS program has proven highly effective, traditional EEO counseling is still being offered as an alternative to individuals seeking pre-complaint counseling. Both forms of EEO assistance offer individuals recognition and an opportunity to express their views and differences.

In 2003, the participation rates in the REDRESS program during the pre-complaint counseling process rose to more than 82 percent nationally, a significant increase over the 77 percent participation rate reached in 2002. When mediation is used, disputes are resolved at more than twice the rate of the traditional counseling process. During 2003, more than 74 percent of the approximately 11,000 complaints mediated through the REDRESS program were successfully closed.

REDRESS II, where mediation is offered at the formal stage of the complaint process, was implemented during 2002. Also implemented was "mandatory mediation," a joint pilot program with the EEOC where all complaints pending a hearing were scheduled for pre-litigation mediation. More than 1,300 mandatory mediations were

conducted in 2003; approximately 30 percent were resolved without further litigation. This pilot will end at the beginning of 2004, but will be replaced with other alternative dispute resolution initiatives. This will include the offering of REDRESS at the time formal complaints are accepted for investigation and throughout the investigatory process.

d. Complement Management

To help achieve operational objectives, the Postal Service implemented a national complement planning, tracking, and management system with national standard procedures and work processes. By standardizing complement management, performance cluster level management can determine appropriate complement plans by installation and function. Using the Business Management Guide, complement plans are budget-based. These plans are converted to authorized staffing levels by unit and input into the Web Complement Information System (WebCoInS). This tool tracks authorized complement and compares it to actual complement. It includes both employee and job data. The local complement committees then utilize WebCoInS to monitor and adjust complement to meet these plans. In the future, local performance cluster plans will be represented in the Field Complement Plan, where local plans will be consolidated to form area and national complement plans. Enhanced planning and tracking tools are included in this standardization effort to aid in the management decision making process of local and area complement committees.

Complement management is one way to ensure organizational success. As an organization, the Postal Service must be aware of workforce dynamics, like attrition, and understand how to manage them. If this is done, complement management can be leveraged to drive costs down and address the changing business landscape.

The Operations Complement Management function in Labor Relations was created at the beginning of 2002. Since its inception, it has developed national standard procedures for complement planning, tracking and management; supported the establishment of complement committees and ad hoc complement management coordinators; and standardized the complement management process, resulting in appropriate complement plans by installations and functions.

C. Service to Small or Rural Communities

In enacting the Postal Reorganization Act of 1970, it was the specific intent of Congress to ensure effective postal service to residents of both urban and rural communities. In providing the nation's mail service, the Postal Service has established a nationwide network of postal facilities, centralized delivery units, and rural and highway contract delivery routes.

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

On April 5, 2002, the Postal Service lifted its self-imposed Post Office closing moratorium, which had been in effect since March 16, 1998. In 2002 the Postal Service began finalizing discontinuance studies on approximately 550 emergency-suspended Post Offices that were backlogged prior to the moratorium. During 2003, the Postal Service closed or consolidated 274 Post Offices, 17 community Post Offices, and 3 classified stations. During 2003, one Post Office closing appeal was docketed by the PRC (Docket No. A2003-1). The appeal pertained to Postal Service actions regarding a postal station, rather than an independent Post

Office. The Postal Service filed a motion to dismiss the proceedings on jurisdictional grounds. The PRC granted the motion of the Postal Service in a decision issued December 3, 2003.

D. Postal Cost Apportionment and Postal Ratemaking Developments

1. Capital One Negotiated Service Agreement: Docket No. MC2002-2

On September 19, 2002, the Postal Service filed a request with the PRC seeking a recommendation on limited rate and classification changes designed to implement a contractual arrangement with Capital One Financial Services Corporation, one of the largest users of First-Class Mail service. The agreement with Capital One Financial Services Corporation is the first attempt by the Postal Service to establish rates applicable to only one mailer through a negotiated service agreement (NSA). The Postal Service requested the Commission recommend establishing additional discounts on an experimental basis for Capital One's First-Class Mail letters volume above a threshold of 1.225 billion pieces annually. These discounts would increase with higher levels of volume above the threshold, but would not be available on any volume mailed before the threshold was reached. Availability of the discounts to Capital One would also be conditioned on Capital One changing its practices relating to undeliverable-as-addressed (UAA) mail. Currently, most of Capital One's UAA mail is physically returned to Capital One, in accordance with standard First-Class Mail service features. Under the NSA, Capital One would agree to accept electronic notice of nondelivery as a substitute for physical returns. This change would yield substantial cost savings for the Postal Service. To implement this aspect of the

agreement, the request sought a recommendation for a waiver of the fee currently charged for this service.

The Postal Service proposed the Capital One Services NSA as a limited, three-year experiment under the PRC's expedited procedures for experimental classification proposals. The PRC, however, declined to consider the case under the rules for experiments. Three parties, including the PRC's Office of Consumer Advocate (OCA), filed cases in opposition. The PRC also took the unusual step of calling an economist as its own witness to address the issue of the effects of the NSA on competition.

On March 31, 2003, the Postal Service, Capital One Services, and the PRC's OCA signed a Stipulation and Agreement in which the OCA withdrew its opposition to the NSA. In exchange for the OCA's support of the Capital One NSA and the Postal Service's request for rate and fee changes, the Postal Service set forth the process for proposal, consideration, and negotiation of NSAs comparable to the Capital One NSA. In addition to the three main signatories, 10 other interveners signed the Stipulation and Agreement.

On May 15, 2003, the PRC issued its decision recommending the requested rate and fee changes with the following exception: It limited the total amount of discounts available to Capital One to the amount of anticipated cost-savings from its use of the service that provides electronic information in lieu of the physical return of UAA pieces. On June 2, 2003, the governors of the Postal Service approved the PRC's recommendations; their decision was implemented on September 1, 2003.

2. Experimental Periodicals Co-palletization Drop Ship Discounts Case: Docket No. MC2002-3

On September 26, 2002, the Postal Service filed a request with the PRC for rate incentives to induce Periodicals mailers to prepare and enter more mailings on pallets,

rather than in sacks. The filing principally addressed smaller publications (and less dense portions of other publications), which are still prepared in sacks, because they lack the delivery density needed to form pallets as individual publications.

The proposed incentives would encourage different publications to combine volumes so that there would be enough volume to form "co-pallets." The proposed discounts would be available only for drop-shipped mail. Since the preparation of co-pallets is typically more onerous than the preparation of single-publication pallets, an additional rate incentive was believed to be needed to encourage mailer participation. Two discount levels were proposed, distinguished by the depth of drop-shipping.

Prior to filing its request, the Postal Service conferred with a wide variety of Periodicals mail customers to develop its proposal. As a result, the case settled, and the PRC recommended the Postal Service proposal on December 20, 2002.

The experiment, implemented on April 20, 2003, tested how much co-palletization and dropshipping the co-palletization discounts will produce. So far the response from printers and publishers has been encouraging.

3. Customized MarketMail: Docket No. MC2003-1

On March 14, 2003, the Postal Service filed with the PRC a request for a recommended decision on Customized MarketMail (CMM) minor classification changes. The Postal Service's request asked the PRC to recommend classification changes that would enable advertising mailers to send thin, non-rectangular-shaped mail, which under current rules is not mailable. CMM service would offer customers the new option of sending uniquely-shaped advertising pieces targeting specific customer groups by interest, sales potential, or product. The unique nature of these pieces would likely make it of greatest interest to advertisers who wish to send targeted, promotional messages to a selected audience.

Such mailpieces would be subject to the Standard Mail service basic tier nonletter Regular or Nonprofit rate, plus the residual shape surcharge. The Postal Service designated the request as one involving a minor classification change, thereby requesting that the Commission apply its expedited minor classification case rules of practice and procedure. The Commission established an expedited schedule for consideration of the proposal and established procedures for settlement negotiations.

On April 30, 2003, the Postal Service moved to have the Commission accept a Stipulation and Agreement, signed by 11 participants in addition to the Postal Service. Only three participants opposed. On June 6, the Commission issued a recommended decision accepting the non-unanimous Stipulation and Agreement as the basis of its recommended decision. The Commission concluded that the CMM proposal satisfied the classification criteria of the Postal Reorganization Act. In a decision dated June 27, the governors of the Postal Service approved the Commission's recommendations. The service was implemented on August 10, 2003.

4. Experimental Parcel Return Services: Docket No. MC2003-2

On May 28, 2003, the Postal Service filed a request with the PRC to recommend proposed experimental Parcel Return Services (PRS), also known as merchandise return service. The experiment was intended to respond to the rapidly evolving market of Internet and catalog sales, in which merchandise sales inevitably lead to returns. Many consumers, as well as Internet and catalog retailers, rely on the Postal Service for return of merchandise. By taking advantage of new ways of handling returned parcels, the proposed PRS could provide convenience to consumers and competitive prices for retailers.

Under the current Parcel Select service, commercial shippers generally enter their parcels in bulk at Postal Service facilities near

the parcels' destinations and receive discounts for doing so. With the PRS experiment, they would be able to pick up returns in bulk at those same facilities near the recipients' addresses and receive discounts for the handling and transportation costs that the Postal Service otherwise would have incurred for single-piece handling and transportation of those parcels back to the original shipper. Thus, the experiment would provide return parcels with the benefits of worksharing and the advantages of Parcel Select service realized by mailers for outgoing parcels.

Mailers using the service would provide consumers with specially-marked prepaid return labels. Consumers would benefit by not having to apply postage or visit a Post Office to have postage calculated. They would be able to mail their returns by dropping them into a collection box, giving them to or leaving them for their mail carrier, or taking them to a Post Office.

Following settlement negotiations, the Postal Service filed a Stipulation and Agreement signed by 12 of the 15 participants, with no objection from the other 3. On August 26, 2003, the PRC recommended the proposal to the Postal Service's governors. The Commission followed the terms of the settlement agreement, which differed from the original request only in minor details. The governors approved the recommendations on September 8, and the Board of Governors set October 19 as the implementation date.

5. Netpost Mailing Online, Termination of Experiment: Docket No. MC2000-2

The three-year NetPost Mailing Online experiment began on September 1, 2000, pursuant to a decision of the governors of the Postal Service approving a recommended decision by the PRC. NetPost Mailing Online service provided customers a means for hybrid entry of items shipped by both First-Class Mail and Standard Mail services via the Internet. Many of those customers were smaller businesses who most valued the convenience of hybrid entry and the opportu-

nity it provided to increase business. During the experiment thousands of customers entered millions of pieces of mail.

Under the terms of the experiment, NetPost Mailing Online service would terminate on September 1, 2003, unless the Postal Service took affirmative action to extend it by submitting a request to the PRC proposing a change to permanent status. The Postal Service elected not to request a change, and the experiment terminated on schedule.

Although the Postal Service chose not to seek to extend NetPost Mailing Online service, it continues to believe that a hybrid combination of Internet entry and conventional hard-copy delivery is an appropriate use of Internet-enabled technology, and that it can lead to entry of new volume. Accordingly, it has determined that the existing customer base for NetPost Mailing Online service will continue to be served through a third party, to whom NetPost Mailing Online service is being conveyed. That third party now operates the service with mail entered on the same terms available to other mailers. The availability of mailing online through a third-party, rather than under the exclusive sponsorship of the Postal Service, is consistent with the business model for other Internet-enabled NetPost services.

While the experiment did not result in a request for permanent classification changes at this time, the Postal Service believes that the experiment was a success. The purpose of this or any other experiment, in the Postal Service's view, is to allow flexible testing of new products and ideas while gauging customer response, operational feasibility, and cost and revenue implications. Valuable insights were gained from this experiment that will be of benefit in future Postal Service efforts.

6. PosteCS Complaint Case: Docket No. C99-1

In October 1998, United Parcel Service (UPS) filed a complaint with the PRC, pursuant to 39 U.S.C. 3662, concerning the Postal Service's provision of PosteCS, a

wholly electronic, Internet-based document service. The complaint alleged, among other things, that the Postal Service should have first secured a recommended decision before offering PosteCS service to the public. The Postal Service discontinued PosteCS service in spring 2002. On September 5, 2002, the Postal Service was directed by the PRC to provide a pleading declaring the status of PosteCS service. On September 19, 2002, the Postal Service requested that the Commission dismiss the complaint because the controversy was moot. On November 6, 2002, the Commission dismissed the complaint case at the Postal Service's request.

7. First-Class Mail Service Standards Complaint Case: Docket No. C2001-3

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

8. Collection Box Removal Complaint Case: Docket No. C2003-1

On November 21, 2002, a complaint was filed with the PRC, pursuant to 39 U.S.C. 3662, alleging that recent removal of collection boxes had caused a nationwide change in service for which no request for an advisory opinion had been sought pursuant to Section 3661(b), and 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. The Postal Service stated its position that the complaint should be terminated without hearings, because the allegations made by the complainant do not support the claim that service is not in accordance with the policies of the PRA.

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 conducted by The Gallup Organization on behalf of the Postal Service's Consumer Advocate. Since Postal Service policy is not to disclose publicly such data, it requested that the PRC impose protective conditions on the scores that would limit their use to the complaint proceeding.

In July 2003, after *in camera* inspection of the relevant CSM scores, the request for protective conditions was denied. The Postal Service moved for reconsideration. On August 11, 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. The Postal Service's comments explained why it reasonably expected that the CSM scores in the complaint case should likewise be treated as confidential and protected. The comments also explained that information regarding atti-

tudes, opinions, and habits of mailers of First-Class Mail letters is worthy of protection, in light of inroads made by those seeking to promote electronic diversion away from the mail. The Postal Service's certified request for reconsideration is still pending before the Commission.

9. Complaint of Walz Postal Solutions:
Docket No. C2003-2

On April 29, 2003, Walz Postal Solutions (Walz) filed a complaint with the PRC, pursuant to 39 U.S.C. 3662, challenging the authority of the Postal Service to transfer Certified Mail delivery information to customers in bulk electronic files. In the most recent omnibus rate case (Docket No. R2001-1), the PRC recommended, and the Postal Service governors approved, enhancements to Certified Mail service that included providing customers with delivery information. The Domestic Mail Classification Schedule (DMCS) language resulting from that case referred generally to "electronic confirmation."

The Postal Service filed its Answer to the Complaint on May 29, explaining that electronic file transfer was within the scope of the DMCS language. The Answer recommended that the PRC dismiss the Complaint, without discovery or hearings. Walz filed a reply to the Postal Service Answer on June 19, and the Postal Service responded on July 7, 2003. On October 9, 2003, the PRC concluded that the complaint presented no persuasive argument alleging a continuing violation of the Postal Reorganization Act. The PRC thus exercised its discretion to dismiss the complaint without hearings. The commission, however, noted procedural deficiencies in the Postal Service's actions concerning the electronic file transfer option.

10. Procedural Rulemakings

During the summer of 2002, the Postal Service and the PRC jointly sponsored a two-day public summit on postal rate making. These sessions were conducted to solicit public and mailer input on rate-making issues, and to encourage discussion of ways to improve the rate-making process, short of legislative change. The summit focused on three main topics: (1) prospects for "phasing" the next omnibus postal rate and fee increases; (2) procedural improvements that could facilitate omnibus rate cases; and (3) the concept of negotiated service agreements, which are particularized agreements between the Postal Service and individual customers that could provide the basis for distinct rates and classifications. While action on the first topic was deferred until the filing of the next rate case, the Commission and the Postal Service took significant action during 2003 on the other topics, including the litigation of a proceeding to establish the first NSA (see current section D, previous item 1, Capital One Negotiated Service Agreement).

During 2003, the PRC initiated several notice-and-comment rulemaking proceedings to consider amendments to its Rules of Practice and Procedure that govern omnibus rate cases and other cases before the Commission. On October 21, 2002, the PRC adopted final rules making the filing of electronic documents over the Internet the standard procedure for filing documents in its proceedings (Docket No. RM2002-1). The Commission refined these requirements in orders issued in December of 2002 and March of 2003 (Docket Nos. RM2003-2, RM2003-4). On December 13, 2002, the PRC proposed rules that would require the Postal Service in each rate case to develop and present overview, or "roadmap" testimony that explains technical and other interrelationships among the various Postal Service proposals (Docket No. RM2003-1). The PRC adopted final rules creating a roadmap witness requirement on August 7, 2003. On January 8, 2003, the PRC initiated a rulemaking to consider amendments that would update and supplement the Postal Service's practice of filing with the Commission periodic reports on Postal Service finances and operations (Docket No. RM2003-3). The PRC issued its final rule requiring changes in periodic reporting on November 3, 2003. Finally, on August 27, 2003, the PRC initiated Docket No.

RM2003-5, in which it proposed specialized procedures to consider Postal Service requests for rate and classification changes based on NSAs. Many of the PRC's proposals arose out of procedural and other issues encountered in Docket No. MC2002-2 (see item D.1). Participants in this rulemaking have filed comments on the proposed rules.

11. Update on Other Initiatives

As part of an ongoing review of e-commerce and other new services, the Postal Service has made several changes to the nonpostal initiatives identified in the report on Nonpostal Initiatives filed with the Postal Rate Commission on March 10, 2003. The initiatives in which there have been major changes are listed below:

a. Mall Package Shipment Program

This program, known as the "All Malls Valet Shipping Program," was a limited pilot test of a variation of free centralized collection service in shopping malls. This program had been discontinued due to limited use during the experiment. It has now been terminated.

b. LibertyCash

This initiative involved consideration of a stored value card for use in purchasing postage and related products. The Postal Service has terminated this initiative.

c. USPS eBillPay

USPS eBillPay enables customers to receive, view and pay their bills electronically via the Postal Service Web site. From inception, this service was largely operated by CheckFree Corporation, with the Postal Service retaining a role relating to marketing, promotion and customer service activities. The Postal Service has decided that it will not renew the contract with CheckFree upon its expiration in April 2004, and has so informed CheckFree.

d. USPS Send Money

USPS Send Money is a service feature available to customers wanting to send money to anyone with a transfer between bank accounts. Since this is provided as a feature under the agreement with CheckFree, it will also no longer be offered by the Postal Service after April 2004.

e. USPS Pay@Delivery

This feature allows customers to combine USPS Send Money with the Postal Service's Delivery Confirmation service offering. Since this is provided as a feature under the agreement with CheckFree, it will also no longer be offered by the Postal Service after April 2004.

E. Transportation Policies

1. General

The Postal Service spent $4.6 billion in 2003 for the contractual transportation of mail. This represents a $42 million decrease from 2002 transportation expenses compared to increases of 1.3 percent and 7.4 percent respectively for the previous two years. After the terrorist attacks on September 11, 2001, the Federal Aviation Authority (FAA) placed restrictions on larger mailpieces which prohibited the Postal Service from using commercial air carriers. The Postal Service was forced to move virtually all Priority Mail items to the FedEx and surface networks. During 2003 the consolidation of routes and improved efficiencies in air transportation resulted in an overall decrease in total transportation costs.

2. Domestic Transportation

a. Air Transportation

Air transportation costs in 2003 totaled $1.8 billion, a decrease of 3.4 percent over the prior year. These costs include the use of commercial airlines (passenger and freight) and dedicated networks. The Postal Service contracted to move more than 2.4 billion pounds of domestic mail last year. As a result of the September 11, 2001 attacks,

the Postal Service has been prohibited from transporting mailpieces 16 ounces or greater on commercial airlines. This has resulted in dramatically lower volumes flown on commercial airlines and higher volume on the FedEx network. The arrangement with FedEx has been improved throughout 2003, resulting in lower costs and record service levels.

The Air Category Management Center solicited and awarded the 2003 commercial air transportation system (CAIR-03) contracts. These contracts replaced the previous air transportation system (ASYS) contracts and differed from ASYS in several significant aspects. CAIR-03 contracts were competitively bid as opposed to negotiated set rates in ASYS. The number of suppliers was reduced from over 50 to 18. For the first time, scanning technology will be used to track the performance of the carriers. Best value criterion, in terms of low cost and best performance, will be used to assign mail. These contracts will allow the Postal Service to enhance its competitive position by using performance data to manage mail flows. The Postal Service will realize a savings of $2.6 million for 2003 alone, over the previous ASYS contracts, and expects to achieve an additional savings of $4.2 million for 2004.

In addition to the CAIR-03 contracts, six alternate methods of transportation (AMOT) contracts have been solicited and awarded. These contracts are for point-to-point segments where CAIR carriers cannot go. The AMOT contracts will save the Postal Service approximately $5 million per year compared to the contracts they replace.

b. Rail Transportation

Postal Service expenses for all rail transportation were $185 million for 2003. This represents an 18.9 percent decrease from 2002. In 2003 the Postal Service paid Amtrak $61 million for rail transportation service. The majority of service provided by the Amtrak transportation network is for Periodicals mail. Additionally, the Postal Service spent $123 million with 11 other railroads that perform service on rail segments throughout the country.

c. Highway Transportation

The Postal Service expended approximately $2.4 billion for highway mail transportation in 2003. This 0.1 percent decrease over 2002 expenses compared to increases of 2.6 percent and 8.4 percent respectively for the previous two years.

d. Water Transportation

In 2003, the cost of transporting mail to domestic offshore destinations by water was $25 million, a 2.1 percent increase over 2002.

3. International Transportation

a. Air Transportation

The Postal Service continues to align its air transportation strategy with providing universal service that satisfies the global delivery requirements of American businesses and consumers. In 2003, the Postal Service spent $200.1 million on international air transportation to more than 188 foreign postal administrations. This represented a $21.2 million increase over the previous year as export volumes from the United States increased along with an increase in the regulated Department of Transportation rate. U.S. flag suppliers were paid $132.3 million, and foreign flag suppliers received $28.9 million. The use of foreign flag suppliers, particularly for airmail service, expands the Postal Service's ability to reach destinations where United States flag suppliers do not provide the required service. In addition, the cost of military mail, reimbursed by the Department of Defense, increased by $189.4 million to $335.2 million over the previous year, reflecting growing deployment of military personnel.

The Postal Service continues to pursue the deregulation of air transportation rates for the transportation of international and military mail and conveyance to the Postal Service the authority to competitively contract for such transportation in the open market.

b. Surface Transportation

The cost of international surface transportation by ocean decreased from $5 million in 2002 to $3.8 million in 2003. Ocean surface transportation suppliers are selected on the basis of a best value comparative analysis of proposals.

c. Terminal Dues and Transit Charges

Under the acts of the Universal Postal Union (UPU), each postal administration that receives mail from another administration has the right to collect from the sending administration a payment for the costs incurred in processing and delivering mail received from that administration; those charges are called terminal dues. Additionally, the UPU provides for transit charges for mail which is exchanged between administrations through a third country. Transit charges are paid by the sending country to the intermediary country for forwarding mail to the destination.

Settlements of terminal dues and transit charges are contingent upon both the Postal Service and the foreign postal administration (FPA) accepting statistics in regards to the weights and number of pieces exchanged by the two countries. The actual settlement with an FPA and the payment of terminal dues or transit charges occurs 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 2003, the Postal Service recognized $360.5 million in terminal dues and transit charges expense. The comparable number for 2002 was $410.7 million.

4. Postal Service-Owned Transportation

table 1-3 postal service vehicle inventory

Vehicle Type	2003 Inventory
1/4-Ton	486
1/2-Ton	176,405
1-Ton	1,242
2 and 1/2-Ton	7,537
Cargo Vans	2,340
Tractors	1,821
Spotters	401
Trailers	4,830
Service	5,276
Administrative	5,377
Law Enforcement	3,042
Mobile Post Office	205
Miscellaneous	117
Total Owned	**209,079***

*Excludes vehicles in storage pending disposal

table 1-4 postal service vehicle operating data

Miles Traveled	1,164,267,788
Miles per Gallon	9.6
Cost per Vehicle	$4,241.46
Cost per Mile	$ 0.78

5. Mail Transport Equipment

Mail transport equipment (MTE) consists of sacks, trays, lids, pallets, and wheeled containers used to enclose and transport mail. The Mail Transport Equipment Service Center (MTESC) program is an out-sourced, production-oriented, volume-driven integrated network of 22 MTE processing facilities located throughout the United States. MTESC 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. MTESS replaces an Operating Systems Integration and Management contract at a projected cost savings of $32 million. The MTESC network is undergoing transformation to streamline MTE processing and reduce operating costs. During 2003, the MTE redesign saved the Postal Service $97.9 million in operational and purchasing costs.

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

F. Postal Service Facilities, Equipment, and Supplies

1. Environmental Programs

During 2003, environmental programs redefined strategies pursuing both long- and short-term planning efforts based on continuing national reviews. Under development are specific measurement tools and technology, such as WebEMIS (Environmental Management Information System), environmental management systems (EMS), emergency management, as well as compliance audits and surveys, to help the field evaluate compliance with applicable environmental requirements.

Information and links to the national compliance data systems, the basis for reports and analysis, are also being strengthened. Special studies and in-depth analyses of specific aspects of the national programs and compliance assessment tools can be found on the Environmental Portal, which is accessible on the Internet at *http://postal. tteam.com.*

Nationally driven compliance helps the regulated community understand and meet environmental obligations. Designated statute-specific assistance includes compliance activities associated with regional and state statutes or regulations. Environmental Management Policy is exploring new and creative ways of achieving environmental results that include the following:

- *Compliance Incentives* — policies and programs that support initiatives that correct environmental problems.

- *Innovations* — new and creative ways of incorporating environmental results into day-to-day operational work activities.

- *Auditing* — the Auditing Policy, which provides incentives for regulated entities to voluntarily discover, disclose, and correct noncompliance, rendering formal Environmental Protection Agency investigation and enforcement action unnecessary.

- *Environmental Management Systems* — systems that focus on environmental management practices at large, "at risk" facilities.

- *Pollution Prevention* — programs intended to stop pollution and waste before it is created.

A key factor to providing environmental protection is ensuring compliance by the regulated community with environmental laws and regulations through monitoring and assessing compliance. Unless there is compliance with requirements, the promulgation of laws and regulations has little impact.

Achievements

Environmental Management Policy provided leadership for the biological response and decontamination of the Curseen-Morris P&DC in Washington, DC. In coordination with multiple federal and city regulatory and elected officials, this facility was successfully decontaminated of anthrax in December 2002. Throughout 2002 and 2003, Environmental Management Policy also provided technical guidance and assistance

for the biological response and decontamination at the Trenton P&DC which was successfully fumigated in October 2003.

In 2003, Environmental Management Policy provided staff and funding support for the corporate Emergency Management Activity (EMA) project. This project developed an *Integrated Emergency Management Plan* (IEMP) that is aligned with the National Incident Management System issued by the Department of Homeland Security. The IEMP includes emergency action plans (with annexes for natural, technological and manmade emergencies) and a Continuity of Operations Plan (COOP) to assure administrative and operational continuity.

The IEMP concept was tested during July and August 2003 when it provided the support mechanism for the pre-production test of the Biohazard Detection System (BDS) at selected sites throughout the United States. The standardized IEMP will be used to support the national deployment of BDS technology in 2004 and 2005.

The WebEMIS module for conducting and managing environmental compliance reviews (ECRs) was implemented in 2003. Nearly 200 ECRs and subsequent corrective actions to ensure compliance with federal, state, and local environmental laws and regulations were completed.

Modules that were developed in 2003 for energy, solid and hazardous waste, air quality, water, asbestos, tanks, and training will be pilot tested in 2004.

2. Facilities

a. Real Estate Inventory

table 1-5 USPS real estate inventory

Total owned facilities	8,356
Total owned interior square feet	215,431,691
Total owned land in square feet	938,392,382
Total leased facilities	25,987
Total leased interior square feet	98,996,586
Total GSA/other government facilities	427
Total GSA/other government interior square feet	3,963,783
Annual rent paid to lessors	$869,744,090

b. Realty Asset Management

The Realty Asset Management function provides internal expertise to identify, analyze, and maximize the return on underutilized and surplus real property assets controlled by the Postal Service. This organization generates income from real estate assets by maximizing 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 real property. During 2003, revenues totaling $90.1 million were generated by Realty Asset Management from the following sources:

table 1-6 realty asset management

Leasing to private tenants	$29.1 million
Leasing to government tenants	$33.2 million
Sales of excess property	$27.8 million

c. Postal Service Facilities Workload

table 1-7 postal service facilities workload

	Projects Completed During 2003	Projects Ongoing as of End of 2003
New construction, major renovations, and expansion projects	11	92
Building purchases	24	23
New lease construction	16	29
Other lease actions (alternate quarters, new leases, and lease renewals)	6,038	2,535
Expense repair and alteration projects	11,744	5,400
Capital repair and alteration projects	11,000	2,249

3. Supply Management

The Postal Service's *Transformation Plan* states that "adopting business-driven purchasing and materials management procedures will enhance supply chain management." Supply chain management (SCM) has become one of the most successful aspects of contemporary business. To increase customer satisfaction and reduce costs, the Postal Service adopted the SCM philosophy and its attendant business practices as a key enabling strategy to Postal Service transformation. This integrated business approach aims to achieve optimal efficiencies and cost reductions at every point in the purchasing and supply stream, from the supplier's supplier to the customer, through disposal. During 2003, Supply Management succeeded in achieving its business objectives and realized more than $469 million, including $84 million of capital, in cost reductions, cost avoidance, and revenue generation benefits while gaining new efficiencies. Since 2000, cumulative SCM cost avoidance, cost reductions, and revenue generation benefits exceed $700 million, including $145 million of capital.

This year, Supply Management achieved greater cost efficiencies and quality management by centralizing purchasing activities, aggregating requirements to leverage volume, reducing the supplier base, instituting standardized requirements based on historic demand, implementing a Postal Service-wide paperless requisitioning system, increasing the number of electronic catalogs within eBuy, and participating in strategic partnerships that draw upon specific expertise and capabilities of both the Postal Service and its suppliers.

a. Supply Chain Management

To achieve the Postal Service's business goals, SCM depends upon close interaction among end users, buyers, and suppliers with a focus on creating long-term contracts and partnerships, as well as ongoing analysis and improvement of operating and administrative processes and costs. To manage these

relationships better, Supply Management integrated its materials management and purchasing processes into a single, cost-efficient process.

The Supply Management organization consists of five commodity-based portfolios (Facilities, Mail Equipment, Services, Supplies, and Transportation) that purchase the equipment, facilities, supplies, and services required by the Postal Service. The portfolios centralize and develop commodity expertise and leverage the Postal Service's buying volume to decrease costs. Each portfolio has a number of buyers, market analysts, price analysts, and item managers who work in category management centers (CMCs) that specialize in particular commodity categories. Each CMC has dedicated teams specializing in the purchasing and supplying of specific goods and services that fit into the particular portfolio.

CMC teams and purchase teams apply SCM business practices to both strategic sourcing and individual purchases and orders. The teams continually examine demand, market conditions, and the supplier community to determine how best to meet the needs of client organizations and which business practices will be of the greatest benefit to the Postal Service's bottom line.

Four purchasing service centers are responsible for purchasing supplies and services for the day-to-day operational needs of field offices. An Operations group concentrates on inventory control, materials distribution, and asset recovery and disposal.

The SCM Strategies group provides SCM expertise and guidance to the portfolios and CMCs to help identify, develop, and implement SCM-focused strategies and cost-reducing initiatives. The Supply Management Infrastructure organization is responsible for policies and procedures, training and development, process review, and data integrity.

b. SCM Initiatives

During 2003, Supply Management provided effective support for the Postal Service's strategic programs and exceeded targets for SCM cost reductions and revenue generation benefits by more than $269 million. Following is a discussion of some of the most effective programs.

The Mail Transport Equipment Service Center (MTESC) program (see chapter 1 section E.5) provides an integrated network for the processing and repair of the Postal Service's MTE. Five suppliers operate 22 MTESC contract sites. During 2003, contracts were restructured to provide suppliers greater flexibility in responding to Postal Service operational needs. These contracts resulted in savings of $10.6 million. The MTESC network reaps savings in the form of fewer workhours, reductions in purchases, and efficient inventory management.

The Maintenance, Repair and Operating (MRO) supplies category is comprised of an integrated basket of products and services necessary to sustain postal system wide operations and facilities management. This category is comprised of the following subcategories: MRO supplies, MRO services, custodial supplies, and custodial rental services. Annual estimated spend projection for the entire MRO category is $291 million. Prior to SCM efforts, requiring organizations typically bought MRO products and services from more than 1,000 suppliers through local buying activities (credit cards), purchase orders, basic pricing agreements, geographical system-wide contracts, national ordering agreements and national contracts. Supply Management used SCM techniques and business disciplines to employ a structured management program for MRO category items. Total 2003 SCM captured savings for MRO are $14.4 million.

The Postal Service's e-purchasing system, eBuy, provides more than 53,000 Postal Service employees with electronic requisitioning, approval, and invoice certification capability. Employees with Internet access are able to access electronic catalogs, track purchases, and electronically certify paper invoices. During 2003, eBuy processed $2.3 billion of the Postal Service's purchasing requirements. Of that amount, $210 million resulted in electronic catalog

order or payment. The system was enhanced to include several new features, such as an electronic invoicing and certification for utilities and telecommunications products and services. During the next few years, 10 to 12 additional catalogs per year will be added to eBuy, along with numerous utility and telecommunications suppliers capable of electronically invoicing the Postal Service. These benefits occur at every stage of the purchase and certification process and substantially lower operating costs and improve administrative efficiencies.

A major goal for Supply Management is to become an industry leading strategic e-sourcing organization. Consistent with the best commercial business practices, the Postal Service began piloting desktop reverse auction software during 2003. As a result, e-sourcing spending increased by $4.7 million. Cumulative desktop and full-source reverse auctions spending was $914.1 million. Under the *Supply Management Five-Year Strategic Plan*, it is imperative that the Postal Service adopt a Web-based SCM e-procurement application tool set to reduce costs. During 2003, Supply Management began developing a progressive strategy to help move it toward SCM excellence. An umbrella strategy, based on a best-in-class modular systems acquisition and implementation approach, was developed to enable expanded maturity of SCM e-procurement application functionality.

c. Purchasing Reform

During 2003, the Postal Service began two policy-related initiatives which promise enhanced business effectiveness in its buying and supplying policies and practices. The first of these, called "purchasing deregulation" is focused on taking full advantage of the freedom provided Postal Service purchasing in the Postal Reorganization Act. The second initiative will combine the Postal Service's buying and supplying policies and practices in order to further institutionalize proven supply chain management business practices throughout the Postal Service.

Traditionally, the Postal Service's purchasing regulations have been contained in the *Purchasing Manual* (and its predecessors) and have had the force and effect of law. Under purchasing deregulation, the Postal Service plans to replace more than 300 pages of these regulations with a brief, simplified set of regulations. These will facilitate the institutionalization of the SCM business philosophy and practices; be easily understood; focus on purchasing goods and services of good quality at fair prices; and provide an expedited and inexpensive means of resolving business disagreements. This change, from a set of regulation-based policies to one based on the commercial best practices of the private sector, will provide the business flexibility necessary to be successful in a highly competitive environment. Purchasing deregulation should be fully implemented by the end of 2004.

In 2002, the Postal Service's Supply Management organization was completely restructured. Similar changes to the organization's business practices are underway. This effort seeks to combine the policies and procedures of purchasing with those of material management operations. The goal is to institute a seamless buying/supplying process by developing and publishing supply management business practices that integrate the two disciplines in a coherent and effective whole. At the same time, all current business practices are being benchmarked against those of best-in-class private sector companies. The final result will be a fully modernized set of the best SCM practices and a business model that will help build on SCM achievements. The Postal Service plans to publish the new policies and business practices during 2004.

d. Innovative Purchasing Activities

In 2003, a new series of air contracts, called the Commercial Air 2003 (CAIR-03), was awarded to replace the previous Air Carriers System Rate (ASYS) contracts. The number of suppliers was reduced from more than 50 to 18 and, for the first time, scanning technology will be used to track the perform-

ance of the carriers. These contracts, worth an estimated $348 million, will allow the Postal Service to enhance its competitive position by using performance data to manage mail flows. The Postal Service will realize a savings of $2.6 million for 2003 and expects to achieve an additional savings of $4.2 million in 2004. In addition to the CAIR-03 contracts, five alternate methods of transportation contracts were awarded for point-to-point segments where CAIR carriers cannot travel. These contracts will save approximately $5 million per year.

A contract was awarded for electricity service for approximately 750 Postal Service accounts in New Jersey. The contract is for two years and includes three one-year renewal options. This contract reduces the cost of electricity through the competitive purchase of electricity generation under deregulation, reduces administrative effort through a single contract, and leverages the requirements of all eligible facilities within participating utility service areas. During the initial two-year contract term, preliminary and conservative reductions are estimated between 5 and 10 percent, or $1.1 million to $2.2 million, based on estimated spending of $22 million.

e. Security- and Environmental-Related Purchases

In response to the anthrax contamination of the mail in 2001, the Postal Service sought methods to quickly and accurately detect biohazards in the mail stream. A Phase One contract was awarded in 2002 for a Biohazard Detection System at a not-to-exceed cost of $175 million. Under the terms of the contract, the supplier will manufacture and install an initial 742 units nationwide. Phase One deployment is planned to begin in January and end in October 2004. If Phase Two is approved, the supplier will deploy an additional 962 units with deployment planned for 2005.

A $26.4 million, cost-reimbursable contract was awarded for pre-construction consulting services, restoration, and remedi-

ation work for the decontamination of anthrax in the Curseen-Morris P&DC in Washington, DC. This project was completed in December 2003.

As a result of the September 11, 2001, terrorist attacks, a contract estimated to be between $15 and $20 million was awarded for the renovation and fix-up of the Church Street facility in New York City, which is adjacent to the site of the former World Trade Center. The facility was being renovated at the time of the attacks, but due to environmental concerns, it is now being cleaned. Renovations will take place once the cleaning has been completed.

A contract was issued for facilities Program Management Services for multidisciplinary professional services to support the Postal Service's real estate and facilities needs nationwide. The supplier may support single or multiple projects for new construction lease, new construction owned, repair and alteration, asset management and development, and specialty projects such as security upgrades and environmental remediation. The not-to-exceed cost of the contract is $900 million.

A contract for 6,240 alternative fuel carrier route vehicles was awarded in the amount of $121.4 million. This initial purchase will allow the Postal Service to meet its commitment to deploy 15,000 vehicles through 2008 under its labor contract agreement with the National Rural Letter Carriers Association (NRLCA). This acquisition will also meet the alternative fuel requirement of the Energy Policy Act of 1992 that requires 75 percent of fleet purchases to be capable of operating on an alternative fuel.

f. Major Purchases

In the Design and Construction commodity, a guaranteed maximum price with shared savings contract was negotiated for nearly $167 million for the construction of a 976,340 square-foot processing and distribution center, a vehicle maintenance facility, and a warehouse in Philadelphia.

Several contracts were awarded to improve mail processing, mail transport equipment (MTE) distribution, and protection from biohazards. Contracts were awarded in the amount of $320.8 million for the manufacture, delivery, installation and test of 74 Automated Package Processing System (APPS) machines for nationwide deployment. This next generation small parcel and bundle sorting system includes automated in-feed and induction stations, optical character recognition, and video coding systems for increased throughput and operational efficiency.

Two contracts were awarded to enhance the operation of the automated flats sorting machine (AFSM) 100. Under these contracts, 1,627 feeder enhanced destacker retrofit (FEDR) systems and flats identification code sort (FICS) systems will be installed on 537 AFSM 100 machines. Firm, fixed-price contracts were negotiated in the amount of $74 million for FEDR and $117.4 million for FICS. The enhancements will improve customer satisfaction and lower maintenance and operations costs.

The Postal Service streamlined and consolidated its contact center operations. Over time, contact centers for communicating with various customer groups had grown into disparate and disjointed systems. The purchase team concluded that these operations could be integrated into a single, more efficient outsourced network managed by one supplier. In 2003, a major contract was awarded for $255 million for the new Contact Center Network Solution. Supply Management anticipates average operational savings of more than $35 million annually.

Since early 2003, the Postal Service has ensured the movement of military mail for American troops during Operation Iraqi Freedom. The best qualified air suppliers were selected to provide charter airmail service for U. S. troops serving in this operation. These suppliers are currently operating daily between Newark, NJ, Bahrain, and Kuwait, connecting with foreign airlift service to Baghdad. Through September 30, the Postal Service has moved approximately 41 million pounds of mail to the troops stationed in Iraq.

g. Supply Management Operations

The Supply Management Operations organization is responsible for managing thousands of line items required for daily operations, providing Supply Management support to the areas through four material service centers and one Material Distribution Center. The Operations catalog includes more than 25,000 stocked items and 5,000 items ordered directly from suppliers plus more than 900,000 items available through electronically accessible commercial catalogs. Operations issued $336 million in parts, supplies, printed material, and equipment in 2003. Spare parts availability averages 99.95 percent for major mail processing equipment.

Supply Management Operations participated with other portfolios to achieve more than $212.9 million in SCM cost reductions, plus an additional $9.1 million in internal cost improvements. Operations experienced a 116 percent growth in credit card holders, 122 percent growth in transactions and a resultant 5 percent increase in revenue to $1.8 million due to volume rebates from the credit card company. In support of Retail Operations, item managers assisted in the planning, coordination, and destruction of $370 million in obsolete and spoiled stamps. Operations reduced costs for several customers — most notably the National Test Administration Center and Mail Transport Equipment Support System — by integrating requirements with existing capabilities in item management, distribution, and systems.

Wholesale inventories were reduced by 11.1 percent during the year. More than 1,300 new items with a value of $6.4 million were added to support new major programs. Reallocation of equipment, in lieu of new purchases, resulted in a cost avoidance of more than $80 million.

h. Supplier Diversity

The Postal Service's Supplier Diversity program is an integral part of the strategy for supply chain management. A well executed program will ensure the Postal Service remains competitive and profitable in the marketplace.

With the objective of integrating Supplier Diversity into the daily business practice, a new Supplier Diversity Corporate Plan was developed. The multiyear plan focuses on continuous improvement in the Postal Service's relationships with small, minority-owned, and woman-owned businesses. The plan contains nine elements of a successful Supplier Diversity program, including management involvement, communication, sourcing, subcontracting, innovation, training and development, performance indices, tracking, and recognition.

Training and development are critical to the overall success of the Supplier Diversity program and the expansion of SCM. To fulfill the training and development objectives as outlined in the plan, a computer-based training module was developed for implementation in 2004. The modules offer real-life best practices that may be employed immediately by any postal buyer.

The Postal Service has worked to improve its processes and procedures to ensure opportunities for all suppliers that provide the value-added products and services it needs to increase customer satisfaction and decrease overall cost. During 2003, the Postal Service sponsored or actively participated in more than 65 events across the nation that were focused on supplier diversity and development. The Postal Service also partnered with supplier development organizations that support minority business owners (e.g., Tuck School of Business at Dartmouth, Kellogg School of Management, and the Northwestern University Executive Program).

In the third annual DIV2000.com survey of 150,000 minority-owned and woman-owned businesses, the Postal Service ranked fourth among public sector entities in promoting multicultural business opportunities. The Postal Service has been a recipient of the DIV50 multicultural business award since its inception and continues to explore new ways to draw diverse business suppliers. The Postal Service was also recognized by several affiliates of the National Minority Supplier Development Council for its continued support of minority owned businesses.

To ensure access to Postal Service business practices and opportunities, the *Doing Business With Us* Web page at *www.usps.com* contains key information and materials on Postal Service SCM philosophy. The Web page identifies commodity portfolios and contains contact information for key buying personnel. In addition, the Postal Service has developed several publications, guides, and reports to increase access to business opportunities.

In 2003 contract commitments with minority businesses reached $334 million; $590 million in contract commitments were also made with woman-owned businesses; and, there were more than $3.8 billion in contract commitments with small businesses.

i. Training and Development

Supply Management transitioned from Postal Service specific training programs for its employees to a more business-focused, and commercially available, supply management curriculum using commercially available programs. More than 350 Supply Management professionals attended courses focused on supply chain management competencies, such as project management, cost/price analysis, market research, and computer skills.

Under the U.S. Office of Government Ethics (OGE) guidelines, the Postal Service must provide designated employees with annual ethics training. Web-based ethics training was delivered to more than 325 Supply Management employees, meeting the OGE annual training requirement.

A. Public Perceptions, Customer Outreach, and Mailer Liaison

1. Customer Feedback Analysis

The Postal Service uses a variety of methods to communicate with customers about its services, products, policies, and personnel. The aggregated data from these sources allow the Postal Service to formally integrate the voice of the individual consumer into its business practices and provide feedback to operations, where the Postal Service can take action, respond, and improve. In 2003, Corporate Customer Contact handled more than 68 million customer inquiries. Of these, nearly 2 million were customer issues that were documented and electronically sent to the appropriate local Post Office, or district Consumer Affairs unit for resolution. Furthermore, reports providing statistical recaps of all documented issues are available for personnel with managerial oversight to analyze trends and take appropriate actions.

2. Privacy

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

In 2003, the Privacy Office accomplished two major goals. The Office developed and began implementation of corporate privacy policies for customers, which provide appropriate privacy protections for consumers and businesses for all channels. The Office issued completely revised customer systems of records under the Privacy Act. Together, the customer policies and Privacy Act systems are clearer, simpler, and easier to use and comply with. In addition, privacy policies relating to employees as well as business partners and suppliers were developed.

The Office also furthered its goal to develop effective, streamlined processes and tools for employees and customers. These development tools include the Postal Service's first privacy handbook, which updates privacy policies and streamlines FOIA processes and procedures; and privacy Web sites for internal and external audiences.

The Office also worked to integrate and communicate privacy issues internally and externally to build on the Postal Service brand. Internally, the Office worked with appropriate cross-functional teams, such as the Intelligent Mail team and the Enterprise Data Warehouse. Externally the Office continues its outreach to keep the Postal Service involved in the privacy community, including government, industry, advocacy, and other groups.

3. Customer Outreach and Mailer Liaison

a. National Postal Forum

In 2003, the Postal Service held National Postal Forums (NPFs) in New Orleans, LA, and Kansas City, MO, with more than 7,000 business customers and exhibitors in attendance. Today's NPFs provide professionals with ongoing training in a rapidly-changing industry, the opportunity to build on the business partnership between the Postal Service and its customers, to network with industry peers, and to talk directly with Postal Service officials.

Signs of Change was the NPF theme in 2003, providing 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 consequence to remittance, periodicals, package, and advertising mailers. NPF attendees also were offered sessions on address management, how to keep costs and rates low, and avoiding fraud scams. Mail security

was particularly emphasized and a series of sessions on mail center safety and security were offered.

Each forum's training and education program offered customers approximately 80 business sessions and workshops in the following categories: Mail Production Specialist, Mail Technology Specialist, Mail Marketing Specialist, Industry Mail Specialist, Mail Security Specialist, and Mail Center Management Specialist.

As part of the Postal Service's commitment to continuing education, four certificate programs were offered to attendees: the *Mail Center Professional Certificate* was earned by those who attended required sessions in specific mail preparation and mailing operations areas; the *Mail Center Safety and Security Certificate* was earned by those who attended four safety-related educational sessions; the *Periodicals Professional Certificate* was designed around a special program moving novice and seasoned periodicals professionals to the forefront of their discipline; and the *Mailpiece Design Certificate* was offered to those individuals attending four sessions focused on mailpiece design. To date, approximately 1,500 individuals have participated in these certificate programs. Complementing the forum's educational program was the exhibit floor, which featured approximately 110 companies at each forum, displaying the latest in mailing supplies, services, mail automation equipment, software, and computer hardware.

b. Executive Mail Center Manager Program

In response to input from the mailing industry, the Postal Service has partnered with mailing industry professionals and nationally-recognized training experts to develop the U. S. Postal Service Executive Mail Center Manager program. This elite mailer education curriculum provides attendees with expertise in mail center operations. The program has been operational since December 2001, and to date, approximately 120 mailing industry professionals have completed the training.

c. Postal Customer Council

Postal Customer Councils (PCC) are local, grassroots organizations comprised of businesses that use the mail to reach their business goals. PCCs provide networking and educational opportunities to help businesses effectively and efficiently communicate with and enhance their relationship with customers, and to identify prospective customers through the mail. They also provide the Postal Service the opportunity to enhance its working relationship with local businesses and to better understand their needs. During 2003, more than 250 local PCCs held more than 1,700 customer meetings. Many PCCs more actively sought the participation of small- and medium-sized businesses through the Direct Mail Seminar Program. As a result of these 51 nationwide seminars, approximately 500 individuals became new PCC members.

As an insert in the monthly *Memo to Mailers*, *Keeping Posted*, the national PCC newsletter, now reaches more than 175,000 customer and company addressees, almost all of whom are members of PCCs. Complementing the newsletter is the national PCC Web site at *www.usps.com/nationalpcc*. This site was redesigned and re-launched in late 2003 to make it easier to navigate. The site is targeted to help businesses find the location of their closest PCC or to enable veteran PCC members to locate valuable information on how to build stronger PCCs. The PCC Web site also houses a Speaker's Bureau that allows PCCs to employ knowledgeable, experienced Postal Service officers and managers as presenters at their local functions.

d. Mailers' Technical Advisory Committee

The Mailers' Technical Advisory Committee (MTAC) consists of association representatives of all segments of the mailing industry and has a 36-year history of finding solutions to major postal issues. The purpose of MTAC is to share technical information, advice, and recommendations on matters concerning transformation of mail-related

products and services to better enhance customer value for the benefit of both the mailing industry and the Postal Service.

MTAC enjoyed another year of significant accomplishment during 2003, and issues related to the following initiatives were brought to closure: *PostalOne!* services, Publication Watch, Maximizing the Value of PLANET Code service, Move Update, Mail.dat and *PostalOne!* Network Operations, Presort Optimization, Service Assessment for Destination Delivery Unit Drop Shipment, Delivery Standards and Business Mail Measurement, and Standard Implementation Guidelines for Periodical Co-Palletization.

Workgroups that are currently active include the following: *PostalOne!* Postage Payment & Statements — Approach and Design, First-Class Business Mail Measure-ment System, Parcel Delivery Performance Measurement Effectiveness, Flat Mail Preparation Optimization, Enhancing CONFIRM service, In-Home Delivery Instructions for Standard Mail service, Design Guidelines for Flat-Size Mail, Flats Container Development, and Mail Irregularity Feedback Process.

Other issues are in the pipeline for possible new work groups with a view toward energizing, to an even greater degree, an already successful program. The plan is to achieve even faster transformation to continue high levels of service, cost containment, proper resource allocation, and innovation to increase revenues for the benefit of both the Postal Service and the mailing industry.

e. Mailing Industry Task Force

The Mailing Industry Task Force (MITF) was established in the spring of 2001 to assess the current state of mail as a communications channel, to determine how mail could be enhanced to ensure its viability, and to protect the $871 billion in commerce that is dependent on an effective mail channel. The Task Force is co-chaired by the chief executive officer of Pitney Bowes and the deputy postmaster general. In addition to the co-chairs, the MITF is led by the chief executives of 11 industry-leading companies. The purpose of the MITF is to respond to today's

customer requirements, make the mail channel more competitive, and unify the mailing industry so that it is able to leverage its economic impact. Their mission includes determining the best methods to meet evolving customer needs, enhancing the capabilities of the mail "product" to complement and compete effectively with other communications methods, and identifying new learnings and opportunities relevant to all aspects of the mailing industry.

The MITF developed eight areas of focus, or recommendations, with each recommendation supported by one or more strategic initiatives. These areas of focus were to improve address quality, support Intelligent Mail, build a competitive postal pricing strategy, enhance postal payment systems, design consumer gateway services, create a CEO-level industry council, standardize mail preparation, and optimize the postal network.

The MITF presented its strategic recommendations to the mailing industry at the fall 2001 National Postal Forum (NPF) in Denver, CO. After releasing its initial recommendations, the MITF steering committee has remained active and has made significant progress in facilitating implementation of its recommendations. The Task Force has involved 72 companies and over 200 industry and Postal Service executives. The Task Force has continued to update the mailing industry by reporting on its progress at National Postal Forums. At the fall 2003 NPF in Kansas City, MO, the Task Force released its fourth progress report. By this time, 45 initiatives had either been fully implemented or were in the process of becoming operational. The following actions were supportive of the MITF's recommendations:

■ Establishment by the Postal Service of a senior vice president for Intelligent Mail service and Address Quality.

■ Making Intelligent Mail service and address quality a priority for both the Postal Service and the industry.

■ Launch and refinement of CONFIRM service, the Postal Service's first Intelligent Mail product.

- Development of strategic initiatives designed to improve the preparation and entry processes for non-letter-sized flat mailpieces and packages.

- Completion of phase one computer modeling of the entire postal network.

- Testing of new consumer-friendly services and products designed to improve the change of address process and to facilitate the return of merchandise.

- Implementation of strategic pricing initiatives, including the first negotiated service agreement.

- Rollout of *PostalOne!* service, a Web-based technology-supported system that more effectively links customers' mailing information with the Postal Service's acceptance, verification, and payment systems.

In addition, the Task Force industry CEOs created the Mailing Industry CEO Council, an independent, nonprofit business league dedicated to the promotion of mail and the mail channel. The Task Force — because of its Postal Service participation — has played no role in Council activities.

Having achieved progress with implementing its original recommendations, the Task Force will be redirecting its efforts and moving forward in the coming months on a new strategic path. The focus will be on mail channel revenue growth and mail effectiveness. As before, the Task Force will reach out to the mailing industry for leadership and expertise that will support efforts to reach this revenue goal. The Task Force will continue its work in Intelligent Mail and address quality — two areas that offer great prospects for mail effectiveness and growth. The Task Force will first identify several initiatives and enhancements that have the most potential to drive mailing industry growth, then focus on how the industry and the Postal Service can best collaborate to realize that potential.

f. Mail Technology Strategy Council

The Intelligent Mail service and Address Quality organization formed a Mail Technology Strategy Council. The council includes representatives from the mailing industry, paper manufacturing, printing, packaging, and information technology industries. Council members provide independent advice on changes in technology that are likely to impact the mailing industry in the next decade. Members are asked to provide their thoughts on where technology is heading and how these trends might be used to enhance the mailing industry. The group held its first two meetings in 2003 and discussed developments in printing, barcoding, and radio frequency identification, and how they might impact the industry.

g. Mail Recovery Centers

The Postal Service operates two mail recovery centers (MRCs). They are located in St. Paul, MN, and Atlanta, GA. These facilities are responsible for the final disposition of undeliverable-as-addressed and nonreturnable mail. During 2003, they processed approximately 1.2 million parcels and 71.4 million letters. To better serve customers, the Postal Service uses MRCs as diagnostic tools to pinpoint specific problem areas that affect mail volumes received at our facilities. By communicating these problems to our mailers, they are able to improve their mail preparation and/or packaging. We work closely with mailer organizations to determine ways we can work together to provide better service and reduce operating costs. A direct result of this process was the Expanded Return Program, whereby undeliverable mail items found in company-identifiable packaging are returned in bulk, as postage due, to the 40 participating companies. Approximately 100,000 pieces were returned through this program during 2003. Additionally, the MRCs realized a substantial decrease in cycle times and processing workhours through Process Management efforts. The Mail Recovery Program, working closely with Operations,

Delivery Programs, Retail, and the Postal Inspection Service, is bringing improved organizational efficiency to this activity.

h. Corporate Customer Contact

Corporate Customer Contact (CCC) provides Postal Service customers with easy toll-free access to a broad range of products and services through 800-ASK-USPS. CCC also handles domestic Express Mail and Priority Mail tracking and tracing calls at 800-222-1811, stamp orders through 800-STAMP-24. CCC also provides support for the majority of customer contacts received via e-mail through the *Contact Us* page on *www.usps.com*. The overall goal of CCC is to improve customer service and operating efficiency, decrease general information calls to Post Office branches and increase revenue through establishment of an effective national contact-handling infrastructure. The CCC network includes two centers in Denver, CO, and Orem, UT, which annually respond to more than 68 million phone and e-mail inquiries from across the nation regarding general information, mailing rates, hours and locations of local Postal Service facilities, service opportunities, and stamp orders, as well as technical problems related to the Postal Service Web site.

After transferring contact center responsibilities to the Vice President, Consumer Advocate's organization in 2001, the program has been enhanced with automated voice recognition technology that answers customer requests for ZIP Code information, rates, and local Post Office hours and locations. CCC is currently transitioning the program to streamline and consolidate the enterprise contact center and customer care, and to leverage the CCC infrastructure to support personalized product and service transactions, whether by telephone, e-mail, or online.

B. Products and Services

The Postal Service has a fundamental requirement to provide products and services that meet the varied needs of its business and residential customers. The Postal Service continues to monitor the business environment for specific products and customer segments through market research, customer satisfaction/loyalty measurements, and customer value analysis. The Postal Service continued to pursue a number of initiatives in 2003 focused on improving the value of existing products and services and developing new products and services to meet customers' needs.

1. Letters

Letter-shaped mail accounted for 73 percent of the Postal Service's total domestic mail volume in 2003. Of that, approximately 64 percent of letters delivered in 2003 were mailed using First-Class Mail service and 36 percent using Standard Mail service. Efficient service is the foundation of these flagship products. The continued focus on transaction mail (bills, statements, and payments) positions the Postal Service to remain the primary channel for businesses and consumers to conduct financial transactions. Ongoing refinements of the National Firm Holdout program, redesign of Business Reply Mail (BRM) service, and constant attention to two- and three-day service performance have supported service improvements in this critical part of the mail base.

The Postal Service is also exploring other avenues for its customers to use letter mail to promote their businesses. The Postal Service continues to test and develop several new initiatives and enhancements for letter mail, including the USPS ValuePost concept, and Repositionable Notes.

a. USPS ValuePost

The concept and development test for the USPS ValuePost program would allow customers to use First-Class Mail postcards as an innovative customer acquisition and reply mechanism for direct marketers and non-profit organizations. The program would deliver the card images, rather than hard copy, and would provide a platform for postage stamps to be used for low-price-point purchases or donations. In 2003, the ValuePost program would enhance central-

ized processing, automated accounting for payment of postage, and transmittal of electronic image files that are forwarded to customers via secure electronic servers.

b. Repositionable Notes

Repositionable Notes give First-Class Mail and Standard Mail services an extra edge. Repositionable Notes are specially-designed and applied "Post-It" type notes that let mailers affix a message to the outside of the envelope, calling attention to the mailer's product or service, address, telephone number, or Web site and inviting customers to look inside. The note can then be repositioned to a refrigerator, computer, telephone or calendar and will serve as a handy reminder of the promotion, information, or offer, even after the original mailpiece is discarded. After concluding a successful one-year pilot test, Repositionable Notes was officially launched as a new product in April 2003.

2. Flats

Flat-size mail[1] falls into five traditional categories or applications: magazines, newspapers, catalogs, large envelopes, and other promotional pieces. The Postal Service processes and delivers approximately 51.6 billion flat-size mailpieces each year (some 25 percent of all mail volume) which amounts to roughly $15 billion dollars in postage annually.

In combination with area Marketing and Operations functions, quarterly focus group meetings are conducted with industry representatives to discuss flat-size mail issues. Attendees describe these meetings as some of the best industry-focused information exchanges held by the Postal Service to identify service performance issues and uncover areas for product and service improvements.

a. Magazines and Newspapers

The Postal Service remains the primary delivery vehicle for Periodicals mail. Periodicals are valuable "anchors" in the mailbox because they are products to which consumers subscribe and that they look forward to receiving. The Postal Service processes and delivers more than 9 billion Periodicals mailpieces annually. Working closely with the periodicals industry, the Postal Service continues to identify opportunities for cost reductions, service improvements, and business growth. Over the past year, the Postal Service has worked with cross-functional groups and customers on such efforts as the nationwide expansion of ePUBWATCH, Magazine Subscription Online, Flat Sequencing System (FSS), Delivery Point Packaging (DPP), market research, co-palletization, package integrity, service measurement, mail irregularity feedback, and promotion of existing products such as the Ride-Along rate.

b. Catalogs

The Postal Service delivers approximately 16 billion catalogs each year. These pieces represent more than 30 percent of all flat-size mail. This is an extremely important and growing category of mail for the Postal Service. In 2003, the Postal Service collaborated with key industry representatives on several process efficiencies, including the development of a communications package titled Guidelines for Optimizing Readability of Flat-Size Mail, which included a brochure, video, and poster highlighting address and barcode quality issues for flat-size pieces. Recommendations for the design of flat-size mail for automation-compatibility will be a companion communications package to be completed in 2004. Working with industry, Postal Service efforts will continue with programs such as co-palletizing mixed classes of flat-size mail, and co-packaging mixed classes to reduce the overall cost of

[1]A flat-size mailpiece is a mailable item that exceeds one of the dimensions for letter-size mail (11-1/2 inches long, 6-1/8 inches high, 1/4 inch thick) but that does not exceed the maximum dimension for the mail processing category (15 inches long, 12 inches high, 3/4 inch thick). Dimensions are different for automation rate flat-size mail eligibility. Flat-size mail may be unwrapped, sleeved, wrapped or enveloped.

mailing magazines, catalogs, and other flat-size pieces. Additionally, the Postal Service is developing a Web presence to promote certain aspects of mail order growth relating to catalog distribution on *www.usps.com*.

c. Large Envelopes and Promotional Pieces

Nearly 26 billion First-Class Mail and Standard Mail envelopes, circulars, and promotional mailings are processed by the Postal Service annually. Promotional pieces include such items as large brochures, flyers, bound and unbound sales and promotional literature, and other large direct mail solicitation mailings where size is used to garner impact and differentiation in the mailbox as well as convey large quantities of prospecting information. The Customized MarketMail (CMM) program is an example of the types of new programs the Postal Service is developing. Launched in August 2003, the CMM program allows unique and irregularly-shaped mailpieces of less than 1/4-inch thickness into the mailstream using drop shipment procedures to enter pieces directly to destinating delivery units — bypassing operations requiring rectangular piece design. It is a new way for mailers to add greater impact to their mailpieces to increase response rates. The Postal Service continues to examine new opportunities in preparation and make-up rules, rate incentives, and address quality initiatives within this category of mail.

3. Special Services

Special services add value in four primary ways:

- Provide security and accountability with a variety of services that permit customers to verify receipt and delivery of their mail, obtain signatures, insure mail contents, and register mail for additional security.

- Allow customers to track letters and flats.

- Provide convenience through Collect on Delivery (COD) services.

- Provide alternative ways and places to receive mail through the Post Office box service.

The Postal Service is committed to leveraging technology to add value to its products and services. Certified Mail and Registered Mail services were enhanced to include electronic verification of the delivery status. Customers can now retrieve the delivery status of their Certified Mail and Registered Mail items over the Internet, by telephone, or by bulk electronic file transfer for large volumes of pieces.

Plans are currently underway to leverage technology to enhance the Return Receipt service. The proposed Return Receipt service would offer small- and high-volume customers an electronic version of the existing hard copy Return Receipt (green card). Retail customers would have the option of purchasing the traditional hardcopy Return Receipt (green card) for $1.75, or an electronic version for $1.30. Large-volume customers would have the option of receiving their return receipts by electronic transmission or via CD-ROM.

First-Class Mail and Standard Mail (letters) services have been further enhanced by the implementation of the new CONFIRM service, which provides customers with the ability to track their outgoing mail and incoming reply pieces. Full implementation of the CONFIRM system was completed in early 2003. CONFIRM information enables mailers to make better business decisions by knowing where their letters or flats are as they travel through the mailstream, and the time of delivery. The service provides mailers with near real-time information about First-Class Mail, Standard Mail, and Periodicals services by using PLANET barcode technology so mailers can uniquely identify their mailpieces. The program team is working with internal stakeholders and the mailing industry to make CONFIRM service more robust for mailers and the Postal Service. Enhancements include development of a certification program to improve the quality of data for performance measurement, Web site and Web-based shared reports used to report service performance information and data

problems, and resources available to customers to learn about service and interpret information.

Bundle Tracking Service is being developed to provide tracking information for carrier route pre-sorted bundles which bypass mail processing equipment. This service will be available for Standard Mail, enhanced carrier route flats and Periodicals mail, and carrier route flats. The pilot test started in April 2003. Currently the Postal Service is conducting market research to ascertain market place demand and pricing.

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

4. Package Services

In 2003, the Postal Service continued to focus on providing customers reliable and affordable package delivery in order to remain a valuable provider in this highly competitive market. The Postal Service has focused on identifying cost-reduction opportunities while maintaining reliable consistent service, developing revenue opportunities by improving existing products and developing new products, and improving access to, and ease-of-use of, products and services. The Postal Service has further defined its strategic direction to coincide with identifying international opportunities to grow revenue, volume, contribution and market share while meeting customers' needs.

a. Parcel Select

Parcel Select service is the Postal Service's economic ground package product designed for medium- to large-size shippers who transport their packages to destinating Postal Service facilities. In 2003, the Postal Service continued to experience volume growth in this product line of nearly 10 percent. Driving this growth has been the Parcel Select product, entered at Destinating Delivery Units (DDU) where volume growth has been nearly 40 percent. Rate stability and the embedding of Delivery Confirmation service in the base rates were critical to this progress. Improving access by standardizing critical entry times and "early bird" hours at delivery units, as well as a continued focus on service improvements, and the development of better service measurement and simplified acceptance procedures helped spur this product growth. Additionally, significant work has been done to develop an Electronic Verification System, which will also improve access and help grow DDU volume.

b. Parcel Select Return Service

Selling merchandise to customers through the mail inevitably results in a portion of the merchandise being returned. By the end of 2003, an estimated 2.8 billion residential parcels will be shipped from online storefronts. Of this volume, 360 million parcels (approximately 13 percent) will be returned.

This presented an opportunity to develop a destination entry merchandise return service. Currently Parcel Select service is targeted toward business-to-residential shippers with volume of more than 100 parcels per day, allowing them to deposit the parcels closer to their destination. By offering a similar merchandise return service, the Postal Service will be targeting the same shippers, but focusing on merchandise returned from consumers to merchants. Return parcels will most likely be picked up at the same mail facility where the packages

originally were deposited (such as the destination bulk mail center or DDU). Shipper benefits would include taking advantage of increased efficiency in their routes by dropping off and picking up parcels at the same time, and favorable rates due to Postal Service cost savings in transportation and mail processing.

The Postal Service filed for a two year experimental rate classification for Parcel Return Services in May 2003. The new rates will include worksharing discounts that reflect savings from reduced transportation and handling costs. In August, the Postal Rate Commission approved the agreement reached by most of the interested parties. That resulting experiment was implemented in October 2003.

c. Click-N-Ship

Since its introduction in May 2002, volume growth in the use of Click-N-Ship service has been continuous. In 2003, several new features were added to this online shipping application at *www.usps.com*. Customers can now save their credit card information online, making transactions even quicker. Additionally, an email ship notification feature was added that allows shippers to notify the intended recipients that their packages are in the mail.

d. Verification of Delivery Services

In 2003, nearly 500 million Priority Mail pieces and packages had Delivery Confirmation or Signature Confirmation service. Package services using Delivery Confirmation and Signature Confirmation services increased from approximately 100 million packages to more than 300 million packages. The inclusion of Delivery Confirmation service in the Parcel Select rate in 2002 encouraged postal customers to use this value-added service.

This increase in volume supports the Postal Service's commitment to improving customer satisfaction by providing fast, reliable information on the delivery of package services. The delivery information provided the foundation for new service performance information. Shared service reports are also being expanded, giving both the Postal Service and shippers' information on delivery performance.

A Bulk Proof of Delivery enhancement was launched in June 2003 for Signature Confirmation service and Express Mail manifest customers. This feature reduces customers' delivery record handling times, provides easy access to information, and allows them to retain electronic records for indefinite periods.

Also in 2003, Track and CONFIRM at *www.usps.com* was enhanced to provide an email notification feature, which allows customers to have delivery status information sent to them via e-mail for Delivery Confirmation, Express Mail, or Certified Mail services. Alternately, they can request that delivery information be sent to a third party. Options are available for both current information and future updates.

As an added customer service feature, Certified Mail and Registered Mail services were included in the 800-222-1811 toll-free number for delivery status information.

In September 2001, General Logistics Systems (GLS), a subsidiary of England's Royal Mail, began delivery of items shipped via the Postal Service's Global Express Mail (GEM) service in six countries initially and Global Air Parcel Post (GAPP) service in 22 countries in Western Europe. Proof of Delivery as well as the name of the person who signed for the package is available for GEM shipments, and the actual signature can be obtained upon request. Global Air Parcel Post volume for Western Europe is also being scanned, and tracking on this product will be offered to customers at a later date.

e. Performance Information Availability

In 2003 product performance information began to be loaded into the new Enterprise Data Warehouse (EDW). The Product Performance EDW will significantly improve the information available to the Postal Service and its package mailers. The new EDW tool

will enable employees and customers to view detailed product performance information in 2004.

f. Residential Delivery Indicator

The Postal Service launched the Residential Delivery Indicator (RDI) data product in time for the spring 2003 National Postal Forum. The RDI data product helps parcel shippers reduce shipping costs and improve operational efficiency by making informed decisions. The RDI data product, in conjunction with Coding Accuracy Support System (CASS) software, will identify whether a delivery type is classified as residential or business which helps shippers avoid ancillary surcharges imposed by some delivery providers. Sales support material has been developed to promote further integration by merchants. Internet Web sites are being developed to promote the RDI toolkit to the Postal Service's larger customers.

g. Cost Reduction Initiatives

During 2003 there was tremendous emphasis directed at reducing costs that support Postal Service package service products. Examples of these cost-reduction efforts include:

- Effectively managing the expenses for package supplies of expedited package products resulting in significant reduction in total and unit costs.

- Coordinating actions to improve parcel barcode quality.

- Investigating, as part of an MTAC workgroup, the issues surrounding the machinability of items mailed in soft packaging.

h. Ease-of-Use Initiatives

The Postal Service took a number of actions to improve ease-of-use and access to Postal Service package service products. At the close of 2003 work is nearly complete for a new program through which Express Mail Corporate Account customers can pay for

their postage by credit card. The new payment option is designed to enhance service and increase financial controls.

Leveraging first-mile capabilities, there is significant activity to enhance the Postal Service's carrier collection program to help support the growth of the Click-N-Ship application, as well as the new Parcel Return Service which will be implemented in 2004. Various carrier collection alternatives are being analyzed and are expected to be tested in 2004.

Finally, a prepaid packaging concept that predetermines price and sells the packaging item with postage pre-applied will enable new sales channels and improve the performance of existing postal marketing channels through simplified transactions. The prepaid Priority Mail flat rate envelope is expected to be introduced in early 2004.

The Global Express Mail label was revised to show a consolidated barcode for customs, which facilitated Postal Service processing and accounting.

The Postal Service redesigned its international Web site, *www.usps.com/global*, to make it easier for customers to understand how to send letters, flats, and packages internationally. The Web site is designed to make it easier to choose a service, calculate the postage, and even ship online. Some highlights of the revised site are:

- *Rate Calculator* — Once a service is chosen the Rate Calculator calculates the postage.

- *Resource Center* — The redesigned site provides a Resource Center which contains links to all the information needed such as international shipping instructions, forms, addressing, special services, customs, and ordering supplies.

- *Click-N-Ship* — There is a link to the landing page — Print Shipping Label — which provides access to the Click-N-Ship program that enables customers to print mailing labels and pay for Global Express Guaranteed and Global Express Mail

items online. Online discounts are also available for Global Express Guaranteed items.

5. Product Redesign

Product redesign efforts in 2003 continued to focus on improving the value/cost relationship of the Postal Service's core products for the entire spectrum of postal customers. The overall objective of Product redesign is to add or modify product features to increase value and to change rate structures and preparation requirements to reduce combined mailer and postal costs. Initially developed by a broad range of mailing industry representatives in work groups sponsored by the Postal Service, many of the proposals will require the approval of the Postal Rate Commission (PRC).

In 2003, market research was conducted to obtain mailer reaction to the proposal for shape-based First-Class Mail rates to provide customers incentives to convert lightweight flats to less-costly letters, and to do more worksharing on heavier flats. Results will be considered when First-Class Mail rates are developed for the next Omnibus Rate Case. Work also proceeded on implementing several proposals to take costs out of the system that do not require PRC approval. For Standard Mail service, the minimum 5-digit bundle size for flats likely to be processed on the AFSM 100 was raised as a mailer option to improve overall piece- and package-handling efficiencies for flats. Proposals for co-palletization and co-bundling of Standard Mail, Periodicals, and Bound Printed Matter flats for greater processing efficiencies were developed and are planned to be implemented in 2004.

Work also proceeded in 2003 on improving Periodicals address quality through an option that would apply a forwarding fee to each piece forwarded or returned, rather than averaging total Periodicals undeliverable as addressed costs across all Periodicals and recovering these costs through piece and pound rates.

Global products require only the approval of the Executive Committee and do not require approval by the PRC. To continue the strategy to simplify Postal Service Global Package Development, market research was conducted in 2003 to obtain mailer reaction to online postage payments and customs forms, a simplified product line, and a Global Express Mail flat rate envelope. A revenue neutral rate schedule is being developed for consideration based on incorporating the above initiatives, aligning global package rate groupings, ensuring cost coverage for each product and a number of other product enhancing initiatives. This rate schedule could be implemented in 2004.

6. Product Marketing

To capitalize on the growing customer segment of medium – to small – businesses, the Postal Service developed materials that focused on the needs of these business customers, including Simple Formulas, Simple Formulas (Spanish version), Simple Steps and MailTown, USA materials and the direct mail interactive compact disc. Additional materials were developed focusing on the delivery needs of this customer segment — Simple Shipping, Simple Shipping the interactive CD, Click-N-Ship brochure, and the Express Mail Corporate Account application.

The following tools were developed to support the national sales force in pursuit of new customers:

■ Feature and Benefit (FAB) sheets were created, which contain messaging from the customer's perspective, frequently asked questions, and customer quotes. The nine FAB sheets focused on First-Class Mail, Direct Mail, CONFIRM (marketing), CONFIRM (financial), Express Mail, Priority Mail, Addressing, Customized MarketMail, and Ride-Along services.

■ A Customer Companion Web site was created which provides a convenient access point to view or search all the available sales support materials. The Customer Companion Web site is available to all employees without the need of a password.

- Basic and advanced customer presentations are available with different template formats.

Additionally, the Postal Service conducted more than 50 direct mail seminars that provided more than 2,800 small businesses with the information and tools necessary to begin using the mail to advertise their products and services. These seminars are provided in conjunction with district offices and members of the mailing community.

C. International Mail

In 2003, international mail showed growth in revenue compared to 2002. This was due in part to recovery from the events of September 11, 2001, and worldwide economic improvement which impacted international mail revenues. Increasing competition for international mail and package delivery services continues from both private carriers and foreign postal administrations.

1. Volume and Revenue

International mail revenues increased by 0.5[2] percent during 2003. Associated volume increased by 2.1 percent and weight by 9.2 percent, primarily due to large amounts of Standard Mail items that come across the Canadian border for entry into the domestic mailstream. This mail, classified as international other, is low rate mail that did not offset revenue losses in other international product categories. No rate adjustments were implemented in 2003. Emphasis was placed on developing the global package sector. International Express Mail service increased 9.7 percent in revenue for the year.

2. Management and Cost Reductions

International Call Center operations were consolidated under Corporate Customer Contact in March 2002. Since that time, cost efficiencies have been realized by leveraging corporate infrastructure assets and the awarding of the Contact Center Network Solution contract. Further cost reductions are anticipated through the integration of technological best practices in the handling of both domestic and international calls, the elimination of operational redundancies, and an even more customer focused management posture.

3. Improving Global Express Mail and Global Air Parcel Post Services

The Postal Service continues a multi-year process of improving the reliability and features of its expedited and package service offerings. Global Express Guaranteed service, established in 2000, now provides a guaranteed, day-certain package delivery option for customers. To complement this service, and to clarify related options for customers, the Postal Service has taken steps to transform its existing Global Express Mail and Global Air Parcel Post services into a consistent and reliable menu of companion options that are predicated on days-to-delivery and geographic service area. Revenues from international package services grew close to 8 percent in 2003.

The Postal Service and a select group of Asian posts have participated in a year-long effort to improve service performance for International Express Mail service. Using the pay-for-performance incentive process, service levels in the United States improved significantly.

The new delivery approach for Express Mail service to continental Europe was expanded to eighteen countries. The service provider is Global Logistics Systems, a subsidiary of Royal Mail, which replaces numerous separate bilateral arrangements with European posts, and offers the advantage of establishing consistency and realistic expectations for expedited and deferred services. Global Air Parcel Post service is provided to 22 countries under this agreement.

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[2] The increase of 0.5 percent does not include foreign postal transactions and international mail fees. These figures are through accounting period 12 and subject to change by the end of the year.

4. State Department Coordination

The Postal Service has continued to work in cooperation with the U.S. Department of State, which has had primary responsibility since October 1998 to formulate, coordinate, and oversee policy with respect to U.S. representation in the Universal Postal Union (UPU). A chief United States policy goal has been to promote more openness and transparency in the UPU and to formalize participation of private-sector stakeholder organizations in UPU meetings. This goal was further advanced when several representatives of U.S. stakeholder associations, as members of the Advisory Group, attended the October 2002 sessions of the UPU Strategy Conference in Geneva and Council of Administration in Bern, and the April 2003 Postal Operations Council. The creation of a new private-sector Consultative Committee will be proposed for formal adoption at the next UPU Congress to be held in Bucharest, Romania, from September 15 to October 5, 2004. The Postal Service continued to play a leadership role in key UPU activities with the goal of improving postal security and the quality of international letter, parcel, and Express Mail services, as well as promoting standards, direct mail, and postal development in developing countries.

The Postal Service also actively contributed to the work within the UPU Terminal Dues Action Group which has considered several proposals for the future terminal dues system to be adopted by the UPU Congress in Bucharest. Terminal dues are the payments made to a destination country for the cost of delivering international mail. As these costs have a direct influence on international postage rates paid by U.S. mailers, the Postal Service has worked together with the Department of State in consultation with U.S. stakeholders, to develop positions that will maintain universal mail service at affordable rates. The Terminal Dues Action Group finalized a pay-for-performance program which will link terminal dues to the quality of letter post service provided by industrialized countries beginning January 1, 2005. By introducing incentives for good quality performance and penalties for poor performance, this program should lead to improved quality in industrialized countries that generate an estimated 80 percent of the world's international mail volumes.

Extraterritorial offices of exchange (ETOEs) are facilities that a national postal operator establishes outside its country in the territory of another UPU member country. Nearly 20 postal operators have set up more than 100 such ETOEs around the world, with the largest concentration in the United States and Europe. Most ETOE operations are the result of postal operators' acquisitions or equity stakes in private commercial firms abroad. U.S. policy regarding ETOEs is that they are strictly commercial entities and do not fulfill the universal service obligations of the UPU Convention when operating in a foreign territory. Therefore, the traffic they generate abroad should be treated like any other traffic from commercial entities, that is, entered into the U.S. domestic mailstream under domestic rates and conditions, and not under UPU terminal dues. More than 20 other countries have now announced similar policies. The Postal Service will continue to work with the Department of State to ensure that U.S. policy concerns are adequately addressed within the UPU regarding ETOE matters.

The Postal Service, Department of State, and Postal Rate Commission sponsored a joint study by an independent consulting firm of the remail provisions of Article 43 of the UPU Convention and their effect on key U.S. stakeholders. Article 43 provides that a postal administration may charge domestic rates for international mail items from a domestic sender that have been posted abroad for delivery in the sender's country at lower UPU terminal dues rates. The report was finalized in 2003 and will be published on the Department of State's Web site.

D. Mail Volume and Service Performance

1. Mail Volume

table 2-1 historical and projected mail volume by fiscal year

(billions of pieces)	2002	2003	Projected 2004	Projected 2005
First-Class Mail	102.4	99.1	97.9	97.5
Priority Mail	1.0	0.9	0.8	0.8
Express Mail	0.1	0.1	0.1	0.1
Periodicals Mail	9.7	9.3	9.2	9.1
Standard Mail	87.2	90.4	94.4	98.2
Package Services	1.1	1.1	1.2	1.2
International Mail	0.9	0.9	0.8	0.8
Other	0.5	0.5	0.5	0.5
Total Mail	202.9	202.3	204.9	208.2

In 2003, volume declined slightly from 202.9 to 202.3 billion pieces, as volume increases in some categories of mail were more than offset by volume decreases in other categories. Growth was concentrated in low-margin Standard Mail volume. High-margin First-Class Mail and Priority Mail volumes declined. This year, largely because the effects of September 11, 2001 and the anthrax attacks had dissipated, volume declined less than in 2002, when it dropped by 4.7 billion pieces. The state of the economy and uncertainty surrounding the war with Iraq acted as a continued brake on growth, however.

First-Class Mail volume fell 2.4 percent in 2003, following a decline of 1.2 percent in the previous year. The continuation of a long-term decline in First-Class Mail single-piece volume underlies this decline. E-commerce and e-mail are being substituted for personal correspondence and hard copy commercial transactions that formerly traveled as First-Class Mail single pieces. In 2003, the Postal Service also experienced the first ever annual decline in workshared First-Class Mail volume (see Graph 2-1).

Some of the current decline in workshare mail relates to the weakness of the economy, but the decline was also related to the absence of new hard-copy billing and statement applications and electronic diversion of bills and statements. In 2004, total First-Class Mail volume is projected to decline 1.6 percent, continuing the slide it experienced in 2003. The decline will slow toward the end of the year, largely due to economic recovery, but any volume growth should be transitory,

graph 2-1 first-class mail volume data (millions)
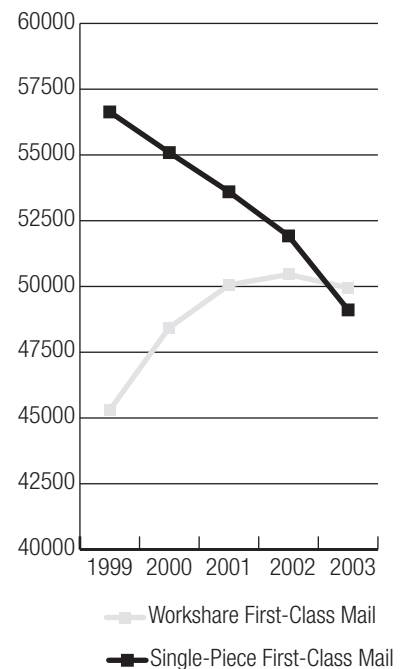
as First-Class Mail volume will continue to be negatively affected by long term trends in communication and payment technologies.

In contrast to First-Class Mail volume, electronic diversion is not causing declines in Standard Mail volume. Standard Mail volume growth was relatively healthy in 2003, despite price increases in late 2002. The weak economy and advertising market slowed growth, however, and much of the increased volume was in low margin noncarrier route pieces. For 2004, we expect volume growth of over 4 percent in this class. Much depends on recovery in both the general economy and, especially, of the advertising market. Although advertising industry forecasters such as McCann Erickson project a robust recovery, the Postal Service remains cautious. The Postal Service believes the timing and strength of the recovery are serious risk factors in the forecast.

This year, continuing a long running trend, parcel products were affected by the shift of the parcel market from air to ground products. This gave a boost to Package Service products, especially destination entered Parcel Post products, but hurt Priority Mail service. The expansion of the FedEx ground network and the increasing use of ground guaranteed services have cut into Priority Mail volume. The Postal Service expects the parcel products market to continue to move in the same direction. Package Services volume will grow in 2004, while Priority Mail volumes decline.

Periodicals volume fell 3.4 percent in 2003, as a result of weakness in the advertising market and continued movement away from hard copy news and entertainment sources to the Internet. These trends affected both the weight and size of the pieces that were delivered and the number of pieces being sent, as titles ceased to exist or merged with others. The Postal Service projects that the decline will continue in 2004.

Until the economy gains traction, volume declines and slow growth trends will continue. Consequently, the Postal Service expects that volume growth will pick up only toward the end of 2004, and that growth for the year will be just over 1 percent, with growth in lower-margin products and declines in higher margin products.

2. Service Performance

First-Class Mail service performance results are measured through the Transit Time Measurement System (TTMS), which measures service performance from the time mail is entered into the system at an induction point until the time it is received in the home or small business. TTMS has been independently administered by PricewaterhouseCoopers under a contract with the Vice President and Consumer Advocate. With the sale of PricewaterhouseCoopers' consulting unit to IBM, TTMS measurement activities will now be performed by IBM Business Consulting Services.

The main goal of TTMS is to measure service performance from the customer's point of view as it actually occurs. The information gathered determines the effectiveness of system performance in satisfying customer requirements. The External First-Class (EXFC) system is an external measurement system of collection box to mailbox delivery performance. EXFC continuously tests a panel of 463 ZIP Code areas selected on the basis of geographic and volume density from which 90 percent of First-Class Mail volume originates and 80 percent destinates. EXFC is not a system wide measurement of all First-Class Mail performance. The EXFC measurement system has been in existence since 1990. The independent EXFC system reported national overnight performance of 95 percent for 2003. National service performance for two- and three-day service standard was reported as 90 and 88 percent, respectively.

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

- *CSM-R* — measures residential household customer satisfaction.

- *CSM-B* — measures business customer satisfaction.

- *CSM-EVB* — measures event-based customer satisfaction

Customer satisfaction is measured independently by The Gallup Organization through a contract with the Vice President and Consumer Advocate.

The CSM-R national results (see Table 2-2) showed a sustained CSM-R score of 93 percent for Overall Performance ratings for the first three quarters of 2003. Postal quarter 4 showed 94 percent of all residential households rated Postal Service Overall Performance as "Excellent", "Very Good", or "Good", an all-time high.

For CSM-B, National Accounts reported an increase in overall performance rating to 94 percent for postal quarters 3 and 4. These business customers have been identified as the Postal Service's largest customers. Approximately 250 companies are designated as National Accounts.

Premier Accounts reported an overall performance rating of 93 percent for postal quarters 2, 3, and 4 of 2003. These are the second largest group of business customers. There are approximately 14,000 Premier Accounts.

Preferred Accounts reported an overall performance rating of 91 percent for postal quarters 2, 3, and 4 of 2003. Preferred Accounts are all other business customers not identified as National or Premier Account companies or sites.

table 2-2 CSM overall performance ratings by customer grouping percent rated excellent/very good/good four-quarter trend

Perfomances by Postal Quarter	2003 PQ 1	2003 PQ 2	2003 PQ 3	2003 PQ 4
National Accounts	92	93	94	94
Premier Accounts	92	93	93	93
Preferred Accounts	90	91	91	91
Residential Households	93	93	93	94

E. Mail Distribution

1. Automation Activities

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

a. Letter Mail Automation Equipment and Software

In 2003, the Postal Service continued its campaign to improve automated processing of letter mail through deployment of additional hardware and software. New automation equipment is allowing postal operations to continue to drive productivity and reduce costs.

During 2003, 90 delivery barcode sorter-expanded capability (DBCS-EC) machines were deployed, bringing the total number of DBCS-ECs to 94. The DBCS-EC machines can process a portion of letter mail that would otherwise require manual distribution. This equipment can handle a wider range of mail than previous barcode sorters, such as flimsy mailpieces and thick and heavy items.

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 Subsystem (DIOSS), and remote computer reader (RCR) equipment. Improvements were deployed to 346 mail processing centers under the Letter Recognition Enhancement Program (LREP), which is an incentive-based program where the vendor is paid based on the incremental performance improvements. Improvements made this year under LREP raised the letter mail encode rate to about 90 percent while reducing the error rate by 1 percent. Future improvements are projected to yield an additional 4–6 percentage point increase in overall system encode rate by mid-2004.

Deployment of Wide Field of View (WFOV) cameras as replacements for the aging and obsolete wide area barcode readers (WABCRs) started in 2003. The WFOV camera system replaces WABCRs on all existing DBCS, DIOSS, and carrier sequence barcode sorter (CSBCS) machines. This camera system will be able to read information-based indicia (IBI) codes as well as Postal Numeric Encoding Technique (POSTNET) and PLANET barcodes currently being read by the WABCR. The WFOV camera system demonstrated a significant improvement over the WABCR in reading POSTNET and PLANET barcodes. Deployment of over 9,000 WFOV cameras was completed in November 2003.

b. Flat Mail Automation

1. Flat Mail Video Coding Operation at Remote Encoding Centers

The flat mail Video Coding System (VCS) provides the same capability for flats as it does for letters, keeping OCR rejects in the automated mailstream. Address images of the rejected mailpieces are captured at the flat sorter and sent to the VCS where a keyer views and processes the images online. The VCSs were initially installed in the processing plants. However, recent advances in the technology have made it possible to key images more efficiently off-site at the remote encoding centers (RECs). Consequently, plants have relocated their video coding operation to the RECs, thereby reducing costs.

The Flats Remote Encoding System (FRES) will be deployed in 2004, to further improve the efficiency of the AFSM 100 REC keying operation. It will reduce the number of keyers required, and manage and balance their workload.

For flats that are not prebarcoded by the mailer, the currently deployed technology requires retranslating the address at each subsequent distribution operation. Flat ID Code Sort (FICS) development, which was completed in 2003, applies an identification (ID) tag to each nonbarcoded flat and saves the address coding result from the OCR or the REC. In subsequent operations, FICS reads the ID tag and sorts the mail using the

saved ZIP Code information. By eliminating multiple keyings of the same images at the REC, FICS will enable the Postal Service to further automate flat sorting operations. Additionally, FICS will allow us to support future efforts in flat delivery point sequencing and Intelligent Mail initiatives such as making information about mail status available to our customers in programs such as the CONFIRM program. Starting in April 2004, FICS will be deployed to all AFSM 100 machines.

2. Automated Flats Feeders and Optical Character Readers for Flat Sorting Machines

The flat sorting machine (FSM) 1000 can process mail, such as newspapers and poly-wrapped material, that cannot be handled by our primary flat sorter, the automated flat sorting machine (AFSM) 100. Deployment of automated flats feeders and optical character readers (AFF/OCR) on the FSM 1000s was completed in 2003. The AFF/OCR modification provides higher machine throughputs and lower staffing requirements. With these upgrades installed, the system is now referred to as the upgraded flat sorting machine (UFSM) 1000. During 2004, we expect to begin deploying OCR improvements that will further enhance machine performance.

During 2003, in-plant and first article tests were conducted for the AFSM 100 feeder enhancement destacking retrofit (FEDR) with successful results. This program is expected to improve throughput by 4.6 percent. Deployment of 1,627 FEDRs to replace feeders on 534 AFSM 100s began in August 2003 and is scheduled for completion in May 2004.

3. Advanced Flats Preparation with Automatic Induction

During 2003, the Postal Service began a research and development program to improve flats preparation and provide auto-mated induction for the AFSM 100. Field testing of the system will take place in 2004. Automated induction promises significant savings in both flats preparation and feeding of the AFSM 100.

c. Parcel Automation

1. Singulate, Scan, and Induction Unit

There are continuing efforts to improve processing efficiency in parcel sorting operations. The Postal Service deployed 10 singulate, scan, and induction units (SSIUs) during 2003 to five bulk mail centers (BMCs). Each BMC received 2 SSIUs to improve the singulation process and automate induction of barcoded parcels onto parcel sortation equipment. The device allows parcels to be sent, one at a time, through a dimensioning unit, a weigh-in-motion scale, and then through a scanning tunnel that reads the barcode. Parcels are then inducted automatically onto the sorter. This greatly reduces the labor needed to process parcels. Deployment of 38 machines was completed in late 2003 and 19 of the 21 BMCs are now using SSIUs in their daily processing operations. This machine is capable of assigning over 5,000 parcels per hour onto the sorter, reducing mail processing labor.

2. Automated Package Processing System

The Automated Package Processing System (APPS) automates the existing package processing network by providing automatic package singulation and address reading through an optical character reader/barcode reader/video coding system (OCR/BCR/VCS). APPS includes automated container unloading to support the high throughput requirements. The system supports in-route tracking of Delivery Confirmation codes. During 2003, the Postal Service awarded a contract for 74 production systems. Delivery is expected to begin in April 2004 and end in June 2005.

APPS is the Postal Service's next generation machine for sorting parcels and bundles of mail that further automates package distribution by providing greater processing capacity through automatic package induction, singulation, and address recognition. It processes up to 9,500 pieces per hour. The system also collects detailed information about each package, such as package type, size and weight. It will be deployed with either one or two feed systems, each capable of sorting to 100-, 150-, or 200-output bins. APPS is intended to replace the older, more labor-intensive small parcel and bundle sorters (SPBS).

2. Remote Encoding Centers

The automated distribution of mail relies on barcodes that represent the mailpiece address. For pieces that are not prebarcoded by the mailer, the Postal Service translates the address and applies the barcode. When all electronic means of resolving address information have been exhausted, an image of the address is sent to a REC where operators use video display terminals and keyboards to process the address information. The resulting barcode is sent electronically keeping the mailpiece in the automated mailstream.

As the technology for electronically resolving addresses improves, the amount of mail requiring manual keying at the RECs is reduced. Continued improvements in automation read rates in 2003 allowed the closing of an additional three of the original 55 RECs, bringing the number of RECs to 17. The Postal Service continues to look into other consolidation options that could result in the closure of additional RECs in the future. At the same time, the Postal Service moved flat mail keying from the plants to the RECs and are planning to key parcel images generated by APPS and the Postal Automated Redirection System (PARS) at the RECs.

3. Process Improvements

a. Sorting Technology

The Integrated Data System (IDS) continuously collects data from all mail processing equipment in a facility. The system allows Postal Service managers to better match equipment and staffing to workloads, which improves productivity and reduces operating costs. The data collected also provide more accurate information on mail volumes and equipment utilization. More accurate 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 to better control operating costs within the Postal Service. The 300 existing IDSs were upgraded in 2002. In 2003, the Postal Service awarded a contract to purchase and install new IDSs at all 21 BMCs.

b. Undeliverable-As-Addressed Mail

PARS automates the handling of undeliverable-as-addressed (UAA) letter mail more efficiently than today's process. The UAA mail is intercepted earlier in the distribution process, resulting in reduced handlings and processing costs and improved service. The system notifies mailers of customers' address changes electronically for mailers that subscribe to this service, and provides hard copy notification for mailers who do not. Both services generate revenue for the Postal Service. The system also automates processing of change-of-address forms.

During 2003, the Postal Service completed Phase I in-plant testing and started first article installation at the Lake Mary, FL plant. Phase I will include 53 processing plants and 86 Computerized Forwarding System sites which process nearly one-fourth of all forwarded letters. PARS Phase I deployment is expected to begin in January 2004 and end in September 2004. The Postal Service expects to complete Phase II, which covers deployment to the remaining sites and which will address flats, by the fall of 2006.

c. Advanced Facer Canceller System Video Facing Modification Kit

The Advanced Facer Canceller System (AFCS) is the primary letter canceling machine used at Postal Service processing and distribution centers. The AFCS Video Facing Modification Kit enables the AFCS to process mail that does not have phosphorescence or fluorescence in the stamp, indicia, or meter mark. This modification allows mail that is rejected by the AFCS to avoid the expensive manual handling previously required to face and cancel. The program upgraded at least one AFCS at each major processing facility. Deployment began in November 2002 and was completed in April 2003.

d. Business Mail Acceptance

The Postal Service has 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. Deployment of 1,203 systems is underway with completion scheduled for early 2004. Additional details are available in Chapter 2, Section I, Item 4, Marketing Technology.

4. Material Handling

Material handling continues to be a significant target of opportunity for technology investments to reduce operating costs and improve productivity and efficiency. Development and production activities during 2003 included equipment for flats, receipt, dispatch, and material transport operations within processing plants.

During 2003, the Postal Service completed acceptance testing of the Universal Transport System (UTS) in Fort Myers, FL. This system expands the processing of product lines beyond that of traditional Tray

Management Systems, which only process letter trays and flats tubs. The UTS handles these product types as well as sacks, parcels, bundles, and mail cartridges. Featuring state-of-the-art material handling technologies and information systems, this equipment enhances the ability to contain workhour growth while providing improved work processes and information flow within the processing plants.

A production contract for flat tub lidding equipment was awarded, and the initial 18 units have been successfully deployed. When mail is ready for dispatch from a processing facility, trays of mail must have sleeves and flat tubs must have lids with strapping applied to both to secure the mail during transport. The Postal Service has now automated this process. Conversely, when mail arrives at a processing facility, the strapping must be cut so that the sleeves and lids can be removed for access to the mail for processing. Development of the prototype flat tub unlidding and mail tray unsleeving technologies have been completed and field-tested for operational reliability. Preproduction activities will proceed with national deployment to follow in 2004. Deployment of the unlidding and unsleeving technology will target cost reduction, in receipt operations and will provide ergonomic benefits.

In 2004, the Postal Service will expand the list of approved modules for tray transport, staging, subsystem processing, and communications. A deployment of this integrated dispatch and receipt equipment is planned for 2004–2005. This equipment will primarily target cost reductions in incoming and outgoing dock operations, as well as receipt and dispatch operations inside processing facilities.

The Postal Service has made significant investments in designing, deploying, and using many new material handling technologies in the past few years. There is now a formal program for supporting these investments to ensure that the maximum life-expectancy is achieved and the equipment is upgraded with software and hardware enhancements as appropriate

technologies become available in an industry that will benefit processing operations. There are three technologies with deployment activities during 2003.

a. Low Cost Tray Sorter

The low cost tray sorter (LCTS) sorts letter trays and flats tubs in a variety of different inbound, in-process, and outbound operations in processing and distribution centers (P&DCs), BMCs, and air mail centers. These systems are configured to the unique needs of each particular processing facility. Deployment of this equipment began in 2002. In 2003, 90 additional systems were deployed. Future systems will include new modules providing the functions necessary to integrate other operations related to the receipt and dispatch of mail containers into the LCTS.

b. Automatic Tray Handling System for the AFSM 100

The Automatic Tray Handling System (ATHS) for the AFSM 100 will upgrade the current manual sweeping and tray replacement operation to one that is automatic. The ATHS 100 will reduce the required machine staffing by one person as it will automatically load, dispatch, and label trays. Additionally, it will prevent the double-labeling of trays that could delay or misdirect mail.

A prototype system has been in use since 2002. In 2003, a preproduction ATHS 100 was added to the operation, with both now being used. The Postal Service awarded a contract for 350 systems in September 2003. Deployment is scheduled to begin in late 2004 and end in 2006.

c. Automatic Tray Handling System for the UFSM 1000

The ATHS for the UFSM 1000 will automate the sweeping and labeling of flat trays, somewhat similar to the ATHS 100. Development contracts were awarded to two vendors in 2002. Testing of their prototypes was completed in the fall of 2003. The award of a production contract is expected in late 2004 or early 2005, with deployment planned for 2005 and 2006.

5. Support Systems for Mail Processing

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

a. Transportation Optimization Planning and Scheduling

Transportation Optimization Planning and Scheduling (TOPS) is a program designed to plan and optimize the transportation network by scheduling transportation and routing mail to meet mail processing targets and service standard requirements at a minimum cost. TOPS will plan the movement of all mail traveling on all modes (contracted and postal) of transportation between all mail processing and transportation facilities, and from all domestic facilities to all international gateways. TOPS will also plan the transportation from mail processing facilities to our largest Post Office branches where surface visibility infrastructure exists. TOPS is designed to perform long range and week to week transportation optimization planning and analysis. The formulation of the model was completed in 2003 and efforts are now focused on synchronizing with the results of the logistics scanning pilot.

b. Surface Air Management System

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

tion. These data is used for internal quality and performance monitoring and contractor compliance measures and in 2003 SAMS was aligned to support the Commercial Air Contract (CAIR-03).

c. Surface Air Support System

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

d. Breakthrough Productivity Initiative

1. Priority Mail Standardization

Field Operations Standardization Implementation objective is national improvement of Priority Mail service performance through shape-based separation and standardized processing methods. The objective will be achieved by separating Priority Mail items at the induction point and maintaining the separation throughout the mailstream.

The Postal Service is developing a Priority Mail Operations Performance Toolkit, which will be available on the Breakthrough Productivity Initiative Web site in the first quarter of 2004, for area and field use. This toolkit will be a comparative analysis tool with the option to select national performance data, individual area data or site specific data

to track and monitor mail processing work-hours versus volume within each of the Priority Mail operations.

2. Other Direct Labor Reviews and Standardization (LDC 17)

Breakthrough Productivity Initiative Performance Achievement has proven its ability to focus efforts on opportunities, improve efficiencies, and reduce costs. Labor Distribution Code 17, Other Direct, activities within plant operations have been an area of concern. Other Direct workhours are more than a third of total plant workhours. These activities are primarily material handling in support of direct distribution, with limited workload measurement or productivity indicators.

New workload measures have been developed for opening unit, flat mail preparation, and platform operations that will improve our ability to identify opportunities and reduce costs. The workload measures will be incorporated into the Plant Performance Achievement model for 2004. Benchmark productivities will be developed and used to determine opportunity workhours and savings for 2005.

In addition, efforts to standardize processes within Other Direct activities are underway. These activities include identifying and implementing proven practices, standard industrial methods, and technology solutions that contribute to operational efficiency.

F. Delivery Unit Operations

1. Delivery Point Sequencing

Today, over 13,000 units receive their letters in Delivery Point Sequence (DPS) order. These 13,000 units account for over 95 percent of all city carrier routes and 74 percent of rural routes, with each route averaging approximately 1,310 DPS letters daily. Table 2-3 shows the total number of delivery points for 2003.

table 2-3 total number of delivery points — 2003

Delivery Point	Number (millions)
City	84.6
Rural	34.6
Post Office Box	19.9
Highway Contract Route	2.2
Total	**141.3**

a. Flats Sequencing System

During 2003 the Postal Service initiated development of two alternative strategies aimed at fully automating the flat mailstream. These development activities are for a Flats Sequencing System (FSS) and Delivery Point Packaging (DPP) which is discussed in a later section.

FSS would finalize the automation of flat mail by sorting machinable flat mail into carrier walk sequence. This type of sortation is referred to as delivery point sequencing and has been used in our letter mail operations for over a decade. Presently, flat mail is sorted only to the zone and carrier level. This mail then must be manually sorted into delivery order by the carrier prior to beginning deliveries for that day. This labor intensive process would be significantly reduced with FSS.

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.

Concept development will continue into 2004. Development and testing of prototype systems would follow. If successful at all

stages, and if the FSS approach proves economical, a production contract could be awarded as soon as 2006.

b. Delivery Point Packaging

In addition to the FSS, discussed above, the Postal Service has simultaneously initiated development of DPP. This program would combine letter and flat mail into one package and sort it in the carrier's delivery sequence.

DPP sequences and merges letter and flat mail into a single bundle or package for each delivery point. This strategy would virtually eliminate the carriers' in-office sorting time, reduce mail handling time during delivery, and allow more street time for the carrier to deliver mail to more addresses.

DPP requires high-speed mail sorting and packaging equipment able to handle the diverse range of mail characteristics consistently, reliably and accurately. Such a system does not yet exist. New systems and methodologies must be conceived and developed for the DPP. Concept development will continue into 2004. Development of test bed systems could begin as early as 2005. Should DPP technology prove viable and economical, it is likely to supercede FSS development and deployment.

2. Managed Service Points

The Managed Service Points (MSP) program is intended to improve the consistency in the time of day that mail is delivered to customers. The program uses mobile data collection devices to scan barcodes placed strategically along the city carrier's line of travel.

In 2003, the 95 percent MSP scanning goal was achieved nationwide by 160,000 city routes. Achievement of this 95 percent goal has provided critical data to the delivery unit managers to effectively evaluate consistency of delivery to our customers.

The MSP program was integrated into the Delivery Operations Information System (DOIS) business solution in September 2003. This will eliminate the existing stand-alone Web based system.

3. Carrier Optimal Routing

The Postal Service is developing city carrier routing and travel optimization programs similar to those used by private sector delivery firms. The Carrier Optimal Routing (COR) tool is a computer program that uses algorithms to configure compact, contiguous, safe city carrier routes and uses volumes from route surveys in order to create efficient travel paths for city carriers, while reducing park points and relays. COR has entered the training phase with 250 people scheduled to be trained by the end of January 2004. The national roll out of the program will commence once key trained personnel are in place.

4. Delivery Performance and Recognition System

The Delivery Performance Achievement and Recognition System (DPARS) will be used to recognize performance and track progress towards improvement. DPARS is a delivery operations breakthrough productivity tool that has become an earned workhour system for city and rural carriers. DPARS is based on demonstrated performance of top quartile offices within peer groups of like sized offices, which set the benchmark target. The actual performance compared to the target performance serves to identify opportunities for improvement. The opportunity hours will be used as the basis for allocating local management initiative savings for the next year. Scorecards providing detailed delivery operation performance information as well as opportunities for improvement are published weekly.

5. Electronic Publication Watch System

The electronic Publication Watch (ePUB-WATCH) system is a complaint tracking and resolution system for Periodicals mail. ePUBWATCH was designed to replace the existing paper-based publication watch system in those delivery units which have computers. Registered publishers can enter a subscriber's Postal Service-related complaint, and request an electronic publi-

cation watch. By completing complaint resolution worksheets, publishers can also receive assistance from one of the Periodicals service improvement coordinators. In 2003, the first year of ePUBWATCH, 11,290 complaints were posted to the database and over 10,300 publication watches were monitored and completed.

6. Collection Box Management System

The Collection Box Management System (CBMS) provides a monitoring tool for delivery unit management to ensure adherence to our collection box schedules and policies. The system consists of a data collection device that scans a barcode located inside a collection box to collect time, location and date information. The information collected by the scanner is placed in a data transfer device at the delivery unit for down-loading into the delivery unit computer. The data is then loaded into the CBMS software program, which allows management to quickly ascertain the status of each collection point. Plans are currently underway to move the present CBMS application into a Web-based environment.

7. ADVANCE Notification and Tracking System

The ADVANCE Notification and Tracking System, commonly referred to as ADVANCE, is designed as a manual Delivery Confirmation system to meet the time-sensitive mailing needs of Standard Mail and Periodicals mailers. ADVANCE tracks the delivery performance of qualified Standard Mail and Periodicals mailings in over 7,500 delivery units and in over 11,000 five-digit ZIP Code locations. In 2003, 5.5 billion mailpieces were tracked using ADVANCE.

8. Mail Security

The Postal Service is pursuing a number of initiatives to reduce the occurrence of mail theft and identity theft by enhancing the security of delivery and collection equipment. One such effort has been the development and deployment of a high security cluster box unit (HSCBU) that has proven to be highly successful at reducing the number of incidents. Another initiative has been rewriting the engineering standards in 2003 to change the dimensions and improve the security of apartment panels used for delivery in apartment buildings. This will result in a more customer-friendly apartment panel able to accept a wider array of mail, such as flats and parcels, with improved security.

G. Stamp Services

In 2003, the Postal Service continued to meet customers' and collectors' needs and demands for postage stamps that appeal to the nation's diverse population. Each stamp issued begins as a request to the Citizens' Stamp Advisory Committee (CSAC) through the Office of Stamp Services. CSAC and the Postal Service receive approximately 50,000 proposals annually. If the proposal meets the established stamp subject selection criteria, it is researched and presented to CSAC for discussion and subsequent action. If approved, the subject is presented to a staff of Postal Service art directors, who make decisions about designs for the stamp.

1. Stamp Program

The 2003 stamp program introduced 19 new, commemorative stamp issues that total 55 new designs. With this program the Postal Service acknowledged a variety of people and their achievements in the American experience. There are nostalgic and cultural American icons and leaders whose lives were devoted to the betterment of others. Also represented are significant historical events of the nation and celebrations of its natural beauty and wildlife.

There are many individual stamp issues along with continuations in several designated series topics that continue to draw an ever-increasing number of collectors who look forward to each year's new addition to their respective collections. The 2003 stamp program began with the 26th in the Black Heritage series when the Postal Service introduced the *Thurgood Marshall* commemorative stamp.

Zora Neale Hurston, novelist, folklorist, and anthropologist, graced the Postal Service's Literary Arts series as the 19th stamp in that series. The Lunar New Year series continued with its 11th issuance by recognizing the *Year of the Ram*. Fans of the popular Legends of Hollywood series added the *Audrey Hepburn* stamp to their collections as she became the 9th person honored with a commemorative stamp in the series. *Ohio* continues the Postal Service's Statehood series with a stamp for the Buckeye State's bicentennial. The interesting and educational *Arctic Tundra* issue continues as the 5th stamp pane in the Postal Service's Nature of America series. American Treasures continues with the issuance of a doubled-sided booklet honoring the artistic work of *Mary Cassatt* as the 3rd issuance in this series. A familiar sight on American coastlines was renewed with another set of five stamps featuring five landmarks of *Southeastern Lighthouses*. Also, the Postal Service honored the nation's veterans with the issuance of the *Korean War Veterans Memorial* stamp.

Individual and group issues honored in 2003 include civil rights leader *Cesar E. Chavez*, who is best know as the founder of the United Farm Workers of America and a tireless advocate for nonviolent social change. *Roy Acuff*, who is often called the King of Country Music, helped turn the Grand Ole Opry into the nation's foremost country music institution. Four great figures from the early days of sports — Walter Camp, Ernie Nevers, Red Grange, and Bronko Nagurski — grace a set of colorized black and white photos of these *Early Football Heroes*.

In addition to honoring personal achievements, stamps immortalized the following national recognitions on their centennials: *First Flight*, which displays an airborne Wright Flyer, was commemorated with a souvenir sheet. The 200th anniversary of the *Louisiana Purchase*, often referred to as the greatest real estate deal in history, was celebrated in stamps, as was the centennial of the *Pelican Island National Wildlife Refuge*, which is located in Brevard County, Florida.

Other exciting issues in the 2003 stamp program include the *American Filmmaking: Behind the Scenes*, *Reptiles and Amphibians*, *District of Columbia*, and the *Old Glory* prestige booklet.

In response to Public Law 107–67 (November 21, 2001), both the *Breast Cancer Research* (BCR) and *Heroes of 2001* semipostal stamps remained on sale throughout 2003. The *Breast Cancer Research* semipostal stamp remained on sale through December 31, 2003, and the *Heroes of 2001* semipostal stamp may remain on sale through December 31, 2004.

The *Stop Family Violence* semipostal stamp was issued on October 8, 2003. The Stamp Out Domestic Violence Act of 2001 directs the Postal Service to transfer the net proceeds from the sale of these semipostal stamps to the Department of Health and Human Services to support domestic violence programs. The *Stop Family Violence* semipostal was to be placed on sale no later than January 1, 2004 and remain on sale no later than December 31, 2006.

In 2003, nationwide philatelic product sales increased by 102 percent over last year. This increase in sales can be attributed to the production of new innovative philatelic products and by expanding the Postal Service's established sales channels. Some of the new philatelic products produced and sold during 2003 include Cancellation Keepsakes, Matted Keepsakes, and the *Old Glory* prestige booklet. In addition to placing philatelic products on Postal Service slat walls, other sales channels included 800-STAMP-24 telephone orders, online sales, and mail orders through the *USA Philatelic* catalog.

2. Production Activities

In keeping with the Postal Service's official mission to manage costs, private stamp printing contracts were awarded to three private suppliers. The contract award is for four years, with three two-year options. Projected savings during the first four years of these contracts is $105 million.

With the stabilization of postage rates until 2006, the Postal Service was able to reduce the total number of stamps produced in 2003 to 34 billion stamps, down from the 44 billion stamps that were produced in 2002. This equates to a production savings cost of $22 million. This reduction also decreased costs associated with transportation, storage, and destruction.

Additional savings have been realized by competitively bidding all of the commemorative stamp issues among the private supplier base. An overall cost reduction of 8 cents per thousand was attained, which resulted in a savings of $2.4 million compared to costs in 2002. In addition, by reducing the stamp commitment to the Bureau of Engraving and Printing, the Postal Service has realized an additional savings of $6 million from 2002 costs.

3. Stamp Fulfillment Services Activities

During 2003, Stamp Fulfillment Services (SFS) fulfilled 1.8 million customer orders, totaling $139 million in revenue. Fifty-two percent of orders shipped, which generated 44 percent of the revenue, were via the Internet. The remaining 48 percent of order volume was generated via *USA Philatelic* catalog mail orders (28 percent) and 800-STAMP-24 telephone orders (20 percent). Also, SFS processed 179,944 personalized envelope orders for $72 million in revenue. Total revenue flow at SFS for stamp sales, envelopes, consignments, LibertyCash and product sales was $925 million in 2003.

H. Licensing Program

The mission of the Postal Service's Licensing Program is to protect, promote, and profit from the intellectual property of the Postal Service. Over the past three years, the Postal Service has been working more pointedly to leverage its intellectual property (e.g., trademarks, business processes, icons, stamp images, technology) as appropriately marketable items that can generate licensing revenue for the organization.

In August 2002, the Postal Service rewrote its enhanced corporate licensing policy and published it in the *Postal Bulletin* for employees and in the *Federal Register* for the public.

The policy, along with frequently asked questions about licensing with the Postal Service, is accessible through the Postal Service Intranet at *http://blue.usps.gov/ corporate/licensing* and on the external Web site at *http://usps.com/communications/ organization/licensing.htm.*

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

Expanded Opportunities

The Postal Art Gallery, a ground-breaking licensing agreement, was developed and launched in 2003 to showcase stamps — with and without denomination and perforations — as art for use in home and office décor. The program offers matted and framed stamp images for sale through the Web site *www.postalartgallery.com,* which is powered by licensee Art Select. The Postal Art Gallery met with instant success.

In 2002 a licensing agreement was signed with Bank One Corporation to offer employees an affinity credit card with competitive annual percentage rates. Since the launch of the initiative, more than 13,000 employees have signed up, making this the most successful program start-up for Bank One.

The interagency licensing agreement between the Postal Service and the U.S. Mint to produce collectible products that combine the 50 State Quarters with the *Greetings From America* stamps continued its success. The program will grow through 2008 as new state quarters are issued at the rate of five per year. In early October 2003, Post Office branches throughout the country began

offering products from the 50 State Quarters Greetings from America program, which is expected to generate a net profit of $50 million for the Postal Service.

I. Service and Market Development

1. Commercial Sales

The Postal Service's objectives in Commercial Sales are improved retention and growth, effective and efficient customer messages across all selling points, and improved levels of customer satisfaction resulting in an expanded customer base. The Postal Service's Commercial Sales priorities include:

- Building profitable, long-term customer relationships.

- Reaching key decision makers with solutions that meet business objectives using the mail.

- Creating revenue streams by stimulating product usage from new customers.

- Understanding the root causes of leakage and taking appropriate corrective action.

- Improving sales channel effectiveness.

- Improving customer satisfaction.

table 2-4 2003 revenue: postal service national and premier accounts

2003	
National Accounts*	$16.2 billion
Premier Accounts**	$20.0 billion

* The approximately 250 largest mailers.
** The approximately 14,000 next largest mailers.

2. Business Service Network

The Business Service Network (BSN) is changing the way the Postal Service serves its largest business customers, representing more than $36 billion in commercial revenue during 2003. Through the BSN, the Postal Service launched a new Customer Relationship Management technology tool that provides a consistent, in-depth, single view of business customers allowing the Postal Service to be more responsive to their needs. This new application, Integrated Business Service Network, connects BSN users with Sales and Customer Support team members from both Marketing and Operations, allowing customer service requests to be resolved quickly and effectively. In conjunction with this effort, the Postal Service launched an internal and external communication strategy to drive customer service transactions to technology increasing productivity and responsiveness.

A Customer Valuation Model was developed to segment customers based on actual and strategic value. As a result, 68 national accounts valued at more than $4 billion were transitioned to service accounts to focus on revenue retention strategies, freeing up sales resources to grow revenue. The BSN worked with the largest business customers to develop and implement a Customer Relationship Understanding and Service and Operational Efficiency Evaluation to clearly define revenue retention and efficiencies strategies between the customer and the Postal Service with action items and measurable results.

The Postal Service also developed and implemented the Account Management and BSN processes. The First Edition of the *AM & BSN Processes Field Manual* is available on Customer Connection. These processes are essential to revenue growth, retention, and productivity, and for improving customer satisfaction and loyalty.

3. Customer Relationship Management

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

Align people, processes, and technology to build one view of the customer and one view to the customer.

During the past year the Postal Service focused on two primary CRM opportunities: using customer knowledge to improve internal processes and create outstanding customer interactions, and improving the customer experience by making it easier for customers to do business with the Postal Service. To improve interactions through a better understanding of customers, the Postal Service established a new service that enables the aggregation of customer information from various channels creating the "complete view of the customer." As this service integrates information from a larger number of sources the Postal Service will have a greater ability to customize services to better meet the specific needs of customers.

The second opportunity — improving the customer experience by making it easier to do business — resulted in the deployment of the Customer Gateway, a business portal through which the Postal Service's largest customers can access multiple Postal Service systems and services. The initial Customer Gateway provides one-stop-shopping for Postal Service information and access to systems such as *PostalOne!*, CONFIRM, ADVANCE, Centralized Account Processing System, and Drop Shipment Appointment System. The gateway enables the aggregation of data, offers customer service options, access to service 24 hours a day, seven days a week, and provides customers the ability to manage the flow of information to and from the Postal Service.

4. Marketing Technology

During 2003 the Postal Service continued its commitment to improving the business customers' experience at acceptance through the innovative use of advanced technology. Across the organization, activities are focused on building the systems, policies, and procedures that will usher in a new era of ease and convenience for customers, and that will dramatically improve acceptance, streamline and improve the overall payment and account management process, and significantly enhance customer access to mailing and postal information.

One of these innovations is the *PostalOne!* system, which establishes a single point of electronic access for business customers to detailed mailing, payment, quality and other consolidated postal and mailing information most frequently requested by mailers. The *PostalOne!* system will replace the aging PERMIT system (customer PERMIT account financial and mailing transactions), and support more flexible payment and account management options while enabling a new consolidated reporting capability. The national infrastructure deployment of the *PostalOne!* system will be completed this year and iterative developmental releases are planned through 2004.

The Postal Service also continued to deploy the Mailing Evaluation Readability Lookup INstrument (MERLIN), the transportation management function of the *PostalOne!* system and the electronic verification system (e-VS) efforts that began during 2001. MERLIN technology electronically verifies presort mailing makeup, barcode readability, tray label accuracy, meter identification, piece counts, and mailpiece characteristics, enabling postal acceptance units to more effectively accept and verify discounted mail. By December 2003 the Postal Service will have deployed 1,203 machines. Mail preparation quality (of discounted mailings) has improved significantly through the use of MERLIN technology.

The transportation management component of the *PostalOne!* system made tremendous improvements during 2003 to more

effectively integrate and align customer and Postal Service business processes. By integrating either a desktop or fully automated *Scan Where You Band* system into our customers' mail production processes, the Postal Service is able to make transportation assignments to letter trays as they are being produced in customers' facilities. This results in substantial savings and greater consistency in delivery by diverting the use of scheduled air transportation of mail into the surface transportation network. The Postal Service has installed 80 systems to date and has approximately 30 systems remaining to be deployed by early 2004.

e-VS testing and development, that began during 2001, will go live in November 2004. e-VS allows high-volume destination entry package mailers to electronically exchange postage information with the Postal Service. The e-VS mailings bypass the origin Post Office, using an electronic manifest, and can be taken directly to the destination Post Office allowing the mailer to run their operation 24 hours a day, seven days a week.

5. Customer Connect

The Customer Connect program was jointly designed by the Postal Service Sales department and the National Association of Letter Carriers, and uses existing resources in new ways to grow Postal Service revenue. Postal Letter Carriers contact customers to identify the shipping needs of businesses and home offices. In a nine-month test in 2003, 4,662 carriers in 93 offices generated 1,206 leads for Postal Service sales and more than $3 million in annual revenue. Customer Connect will be implemented in approximately 1,500 offices by February 2004.

J. Retail Programs

Retail is the way most Americans buy and use postal products and services. Each day, the vast majority of the more than seven million Americans who visit Post Office branches and contract postal units perform the very basic functions of buying stamps, mailing packages, and collecting mail from their Post Office boxes. Many more obtain stamps or other Postal Service products by mail, online, through vending equipment, and through supermarkets and other authorized agents. As it faces an ever-changing marketplace, the Postal Service is exploring new services and business arrangements necessary to expand its customer base and meet the growing needs of its customers.

In addition to the development of new solutions for its customers, creating agreements with business partners and other commercial carriers that help to capture the profit potential of the postal retail network will help the Postal Service to create sustainable net revenue. For example, the Postal Service's agreement with FedEx not only provides the Postal Service with new revenue, but it also leverages the postal retail network. In 2003, the Postal Service tested the value of its retail space with America Online, Pitney Bowes, and Stamps.com.

The Postal Service will further explore the value of its retail space through the Lobby Asset Valuation Program, which is designed to segment Post Offices, stations, and branches by the size and type of facility and by the types of customers they serve. By applying these metrics, the Postal Service can properly leverage its retail assets with potential partners that have some relevance to mail. This represents an opportunity for the Postal Service to generate revenue while, at the same time, keeping customers in the mail. This program is expected to be implemented on a test basis by mid-2004.

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

Additionally, co-locating retail services with business services retailers is planned for testing with several large retail chains catering to small businesses to help them grow using postal products and services. It is expected that the first partnership with a chain retailer will be implemented by spring 2004.

1. Retail Sales

The Postal Service's retail channel provides local access for the core product applications of correspondence and transaction mailing, domestic and international package shipping, and special services, including delivery through more than 19 million Post Office boxes. The major customer segments for retail are small businesses and consumers (customers using the mail for personal, rather than business reasons). It is estimated that consumers and small firms generate retail revenue of $7.4 billion and $8.7 billion, respectively (meters, permits, and corporate accounts not included). Total retail revenue for 2003 was $17.3 billion.

Customers can access postal services through traditional Post Offices, stations, and branches as well as through alternatives such as contract postal units, vending, online services, stamps by mail, and consignment locations.

Approximately 85 percent of all retail revenue and 96 percent of all retail operating expenses accrue from the Postal Service's classified Post Office and contract unit full-service options. They are augmented by Stamps by Mail, more than 30,000 revenue-generating vending machines, 4,000 contract postal units, and stamp sales at thousands of commercial retail outlets and ATMs.

2. Marketing Calendar

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

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

3. Point-of-Service One

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

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

POS ONE is currently in place at 10,276 sites, providing detailed transaction data for approximately 76 percent of walk-in revenue for postal services. Stage 3 implementation began in late June 2003, and will expand POS ONE to approximately 15,000 total sites.

POS ONE has enabled the development and implementation of the Retail Data Mart (RDM). The data mart, as part of the Enterprise Data Warehouse, provides easy

access to critical business information used for operational planning as well as sales and market analysis. Transaction data about products and services are easily available for analysis, strategy development, and planning.

4. Retail Operations

Comprehensive changes were introduced in 2000 to support a strategic shift in the way retail employees perceive their role in providing excellent customer service. Programs and tools that were implemented included new position descriptions and qualification standards, new job titles, a highly customer-focused training program, and newly designed uniforms. The momentum created by these changes continued in 2003 with implementation of additional tools and support.

With the activation of the RDM, reports and information critical to making optimal business decisions at the unit level are now available in POS ONE offices. This level of information was previously inaccessible. Training was developed for all POS ONE front-line supervisors, district and area support managers using an eLearning (distance learning) platform. This training not only focuses on the skills required to use the RDM, but also on best practices and actions required based on performance measured in a few key reports.

This RDM course represented the first broad application of the e-Learning format for a significant number of field employees. The use of e-Learning has allowed retail to deliver training at the lowest cost, while providing the capability to match training evaluation to actual performance on the job tasks. This gives the Postal Service a business advantage, by monitoring performance against training and enabling decision making that positively impacts operational efficiency and revenue.

a. Retail Access

The Retail Access Management System is a Geographical Information System (GIS) tool used to identify current postal retail locations and to assist in determining future locations. In 2003, this tool was improved to provide more accurate and meaningful data. It can generate demographic reports, market profiles, and retail expenditure reports, as well as calculate driving times. This information can improve the Postal Service's effectiveness in managing the retail network and in selecting new retail locations. Deployment is scheduled for November 2004.

b. Web Box Activity Tracking System

The Web Box Activity Tracking System (WebBATS) is a Web-enabled centralized database system to improve access, speed and reliability of tracking Post Office (P.O.) box services. It will support marketing targeted to areas with high P.O. box vacancy rates to increase postal revenue. 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 P.O. box online without having to go into the Post Office. Online P.O. box rentals and renewals will be more cost effective than conducting these transactions at the retail window. Migration of all Post Office branches to WebBATS will be completed by September 2004.

5. Self-Service and Alternative Access

During 2003, the Postal Service continued to focus on improving performance of vending equipment, deploying the Automated Postal Center (16 test locations), increasing access points for consumer stamp purchases, reducing costs, and generating revenue. The Postal Service continued to emphasize increasing consumer awareness of alternative locations for stamp purchases.

Approximately 4 percent of retail revenue is generated from self-service vending. During 2003, the Postal Service focused on improving customer satisfaction (improved by 1 percent) and reducing the number of out-of-date machines (decreased by 3.4 percent.)

a. Provide New Services

The Postal Service continued the market test of its pilot self-service kiosks in five cities. The Self Service Platform — Automated Postal Center (SSP/APC) is a low-cost alternative to the retail counter that provides customers with convenient access 24 hours a day, seven days a week, to the postal products and services they most frequently need. It can be deployed at both postal and non-postal locations. The SSP/APC reduces customer waiting time in Post Office branches by providing direct access to basic postal products and services. Easier access to premium products, such as Priority Mail and Express Mail services, make them more competitive with alternative delivery services. Moving transactions from the counter to self-service also reduces costs. In 2003, funding was approved to deploy the first 2,500 units to postal locations. The contract was awarded in December 2003, with deployment running from June through November 2004. This use of new technology further leverages the Postal Service's plans to reduce costs and improve customer satisfaction.

b. Hallmark Gold Crown Stores Partnership

The Postal Service and individual businesses have partnered to provide limited retail and mail acceptance services on behalf of the Postal Service. The services being offered, for which a commission will be paid to the partner retailers, are First-Class Mail, Priority Mail, Delivery Confirmation, Signature Confirmation, Certified Mail, Return Receipt, and Insurance services. Digital postage meters will be provided to partner retailers to reduce administrative burden and costs, and to automate payment processing.

The first business partners to use this concept are participating Hallmark Gold Crown stores. Riding on the successful deployment of this program, partnerships with other retailers are currently being pursued. Deployment began in March 2003 with initial roll-out to 75 Hallmark stores. There are currently 494 Hallmark stores in the program.

c. Stamps on Consignment and Stamps by Mail

The Postal Service will continue its convenient Stamps on Consignment program, which makes stamps available through participating retailers such as supermarkets and drug and convenience stores, as well as automated teller machines through many financial institutions. Approximately 8 percent of retail revenue is generated from the Stamps on Consignment program. This program is designed to offer consumers easy access to purchase stamps. The number of alternative locations provided by this program was approximately 40,000 in 2003. Other alternatives include Stamps by Mail, which is being revamped for added convenience, the Postal Store at *www.usps.com*, and Stamps by Mail at 800-STAMP-24.

d. Contract Postal Units

Contract postal units (CPUs) and other commercial agents and partners allow the Postal Service to reach customers at times when Post Office branches are deemed inconvenient or are closed. Typical locations for these units are shopping centers, local malls, and other locations that customers may frequent. The extended evening, weekend, and holiday hours of these nonpostal facilities provide Postal Service customers with the utmost convenience. Research indicates that customers prefer to combine errands at one location. The Postal Service, therefore, will be targeting grocery store chains and convenience stores as potential full- or limited-service contract units. Implementation in convenience stores has begun in the Southeast Area and there is strong interest in this industry to support expansion in 2004 and 2005.

Similar to CPUs, new services are being developed to implement basic mailing, First-Class Mail, and Priority Mail services into additional retail store locations. This will not

only give postal customers greater access to postal services, but it will provide them with those services at Post Office prices.

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

e. Internet Channel: *usps.com*

Every year the Internet continues to expand and develop its mainstay role in the American culture and economy. The impact of the Internet has transformed communication and business processes and created opportunities for all organizations, including the Postal Service, to improve efficiencies, enhance relationships, and develop new products and services. In 2003, the Postal Service continued to utilize this technology to provide products and services that meet the varied needs of its business and consumer customers.

The Postal Service's award-winning Web site, *usps.com*, has become a vital channel, streamlining customer access to core postal products, services, and information. The continued growth of online revenue transactions, other indirect *usps.com* revenue transactions, and cost avoidance transactions have driven the total channel value to an estimated at $399 million in 2003 — an increase of 79 percent over 2002.

Much of the success is attributed to the launch of *usps.com* version 2.7 in January 2003. This effort targeted customer needs for more small-business related content and easier access to tools and applications. Additionally, value was achieved by leveraging technologies to streamline transactions that made it easier for customers to purchase goods and services.

This year's efforts also focused on improving the online customer experience, which resulted in increased online traffic and customer satisfaction. The Web site received 175 million visits in 2003, an increase of 38

percent over 2002. The Internet channel achieved an overall customer satisfaction rating that surpassed the industry benchmark of 72 percent. Also, *usps.com* was ranked number one by Washington-based consulting firm Customer Respect Group in an analysis that measured the customer experience when interacting with companies over the Internet for transportation, distribution, and logistics firms in the United States.

f. Postage Technology Initiatives and Secure Electronic Services

The Postal Service's postage technology initiatives focus on extending easy, cost-effective access to postage and leveraging private sector partnerships for innovations to cut costs and enhance value. Leveraging commercially-developed innovations reduces or eliminates Postal Service capital investment and provides opportunities for cost savings, cost avoidance, revenue generation, and mail security. Further, the innovations of Internet postage and the information based indicia (IBI) provide the technology platform for Intelligent Mail service and opportunities to enhance the value of mail and move toward a digital network.

During 2003, the Postal Service received or continued review of 38 concepts for new meters and PC Postage software solutions. Significant among these are concepts involving further expansion of postage payment integration with online auctions and Web-based shipping solutions. Of those concepts, 25 products were formally submitted for evaluation by the various commercial providers of which 18 have currently been approved for national distribution.

Package shipping customers asked specifically for a way to pay for postage conveniently without printing the postage amount directly onto the shipping label. In response, the POSTAGE PAID IBI was introduced in 2003 by two PC Postage providers. The label provides the solution by allowing customers to print a postage-paid shipping label with the postage amount embedded in the barcode. This feature contributed to the

significant growth in PC Postage revenues in 2003; revenues grew by 50 percent over last year, reaching $150 million.

NetStamps was a new feature introduced in early 2003 to extend the convenience of Internet postage. NetStamps gives customers Internet postage that can be used just like adhesive postage stamps. Giving customers this option provides an attractive technology-based alternative to support the Postal Service *Transformation Plan* objective to move simple transactions out of the retail lobby. Since introduction, NetStamps sales have exceeded $20 million.

Throughout 2003, continued enhancements were made to the centralized databases used to track and manage products, customers, and revenue associated with postage meter use. During 2003, the Postal Service consolidated the Meter Accounting and Tracking System database from the 85 districts into one centralized database. The reduction of district databases resulted in the elimination of processing time, consolidation of error correction, near real-time data, and support of shared services.

The Postal Service also continued its initiatives to move to electronic transfer of funds; not only to improve Postal Service data management and savings but also to provide improvements for customers by eliminating any delay in use of their postage funds that may have been caused by manual processes. These enhancements provided the opportunity to avoid and/or take $35 million in costs out of the system during 2003. Highlights of these efforts include:

- A further reduction of 60 percent, or 8,000, in manually-reset meters from the level at the end of 2002, eliminating in excess of 70,000 manual resets at the Post Office window.

- More than one million meter installations and withdrawals processed through the automated meter movement file that otherwise would have required entry by a field finance clerk.

- 230,300 secure fund transfers processed, allowing meter funds to be transferred from one remote reset meter

to another in the customer's place of business — eliminating the need for a withdraw and installation by a Postal Service employee and the issuance of a refund check.

- 178,200 secure withdrawals processed as a result of the implementation of policies and system modifications to allow for the withdrawal of a meter without Postal Service employee verification.

More than 70,000 PC Postage closed account refunds and 50,000 spoiled postage refunds processed by the commercial providers — eliminating the issuance of checks and verification of spoiled postage at the Post Office window.

The USPS Electronic Postmark service digitally time-stamps and signs electronic files and detects any tampering of the postmarked document or transaction. The USPS Electronic Postmark program is working with major Information Technology service providers to incorporate the use of the USPS Electronic Postmark into their services for their customers. The Postal Service announced the availability of In-Person Proofing (IPP) service at Post Office branches that support the issuance of higher trust digital credentials. This was in response to a need for improved "online identity" which creates this unique service opportunity for the Postal Service to provide value to the public, leverage our retail network and enable internet communications to enjoy a new level of security and reliability. IPP service provides physical authentication of an individual's identification at a Post Office before the organization issues a digital signature certificate to the individual. This service is available for purchase by both certifying authorities and government agencies.

USPS Electronic Postmark Extension for Microsoft Office® provides users with tamper detection and date/time stamping of electronic documents and files. The extension allows the user to digitally sign a document and apply an electronic date and time within Microsoft Office XP® and Microsoft Office 2003®. This combination of technologies provides an integrated set of capabilities that includes the digital signing of a Microsoft

Office (MS) Word® document using digital certificates; electronic content sealing and time/date stamping with the USPS Electronic Postmark service; and the ability to subsequently verify a MS Word document's validity, authenticity, and integrity.

K. Pricing and Classification

1. Negotiated Service Agreement

An historic milestone in the evolution of postal pricing occurred with the approval by the Postal Rate Commission (PRC) on May 15, 2003, of the first-ever filed Negotiated Service Agreement (NSA). The agreement is with Capital One Financial Services Corporation and was implemented on September 1, 2003. (This is discussed more fully in Chapter 1, Section D, Postal Cost Apportionment and Postal Ratemaking Developments, Item 1.) The agreement combines discounts on incremental volume with cost-saving opportunities that will result in value to both Capital One and the Postal Service. NSAs enhance traditional pricing strategies by allowing the Postal Service to negotiate business opportunities with individual customers within the current regulatory framework. The Postal Service is continuing to discuss NSAs in two areas: (1) with customers "similarly situated" to Capital One, and (2) with customers from a range of firms in different industries that would qualify for concepts being developed for new baseline NSAs. The PRC issued a proposed Rule on August 27, 2003, that discusses how it would handle NSA filings in the future. A final Rule had not been issued by the end of 2003.

2. *Domestic Mail Manual* Redesign

In addition to changing the process of developing and implementing new prices, the way in which those prices, rules and standards are communicated is also changing. *The Domestic Mail Manual* (DMM), long the final reference authority for explaining mailing standards and communicating rates, is undergoing a dramatic change. This change is designed to present mailing standards and rates in the ways a customer thinks about or makes a decision about mail. Recognizing that customers have different needs and varying levels of experience with mailing, the Postal Service is designing a new DMM series of four volumes targeted to novice mailers, experts, decision makers, and implementers.

In late 2002, DMM 100, *A Customer's Guide to Mailing*, was introduced to retail customers. A new Spanish version of the DMM 100 was published and distributed to field offices in September 2003. The DMM 200, *A Guide to Mailing for Businesses and Organizations*, intended for small- to medium-volume mailers, was shipped to postal facilities in July 2003 and to all new mailing permit holders in September 2003. It will be followed by the DMM 300, containing codified mailing standards, and the DMM 400, a supplemental technical guide.

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

3. Omnibus Rate Case and Review of Phased Rates

As a result of the recent change in legislation affecting Civil Service Retirement System (CSRS) retirement funding obligations, the Postal Service does not expect to implement a change in general rates before 2006. In the interim the Postal Service will work with customers, industry associations, and other stakeholders to explore ways to meet customers' expressed desire for smaller, more predictable rate changes. During the summer of 2002, the Postal Service and the PRC jointly sponsored a two-day public summit on postal ratemaking, which included discussion of the prospects for "phasing" the next omnibus postal rate case. Phasing would result in the implementation of a rate change in a series of steps rather than in a single change. In exploring the potential for phased rates the Postal Service conferred with customers and indus-

try groups and identified a number of issues that will need to be resolved before a phasing proposal is pursued.

4. Periodicals Pricing Test

Another ongoing pricing initiative is the periodicals price incentive test. This test provides an incentive for small publications to combine their mailings on pallets and drop them closer to the point of delivery — in effect turning small mailings into larger mailings. Mailers benefit from lower prices while the Postal Service reduces its processing costs. It is expected that this kind of pricing will become more important with the predicted growth of smaller, more specialized publications.

5. Customized MarketMail

A new Customized MarketMail classification enables advertising mailers to send non-rectangular-shaped mailpieces, which were not previously mailable. The service, which began in August 2003, offers customers the new option of sending uniquely-shaped advertising pieces targeting specific customer groups by interest, sales potential, or product. The unique nature of these pieces likely makes them of greatest interest to advertisers who wish to send targeted, promotional messages to a selected audience.

6. Subscription Based Pricing

A significant new development in the way Postal Service prices are set occurred on September 22, 2002, when subscription-based pricing for CONFIRM service went into effect. The CONFIRM system allows customers to track letters and flats as they move through the mail processing system. Data generated from PLANET barcodes on mailpieces are made available to individual subscribers so they can find out where their mail is in the process.

Traditionally the Postal Service set prices on a unit basis: a fixed price was charged for each letter, flat, or parcel. The larger the number of pieces mailed, the higher the postage charged. With CONFIRM service the Postal Service does not charge for individual units (tracking scans). Rather, it charges for subscriptions that allow for either an unlim-

ited number of scans or a large, fixed-quantity of scans to be received by the subscriber for a fixed-price per year. Whether the mailer uses all the scans, part of them, or none, the price remains the same. CONFIRM service represents the first time subscription-based pricing has been used to collect revenue.

L. Technology

The Information Technology (IT) organization is modernizing the Postal Service infrastructure and application portfolios. At the same time, IT continues to examine and refine its business processes to ensure that it provides the most current and valuable services to the Postal Service and its customers. To improve efficiency and reduce overall costs, the organization is striving to standardize, simplify, and centralize its operations in order to improve efficiency and reduce overall costs.

In 2003, IT focused significant attention on upgrading the computing infrastructure, enhancing information security, providing universal computing connectivity, and establishing a corporate-wide data warehouse. Through the strategic application of these and other initiatives, IT is building a strong foundation on which the Postal Service can base future operations.

1. Advanced Computing Environment

A few years ago, many of the Postal Service's information technology resources were outdated and no longer supported by manufacturers. To remain competitive in the marketplace, the Postal Service had to make major investments in its computing platform. The IT organization was charged with planning and implementing a completely modernized distributed computing infrastructure throughout the Postal Service. Implementation of that new infrastructure, the Advanced Computing Environment (ACE) is now well underway.

The ACE initiative involved the planning, design, and implementation of a suite of technology services and required IT to assess existing system architecture/governance, user support services, system services, and application services. Significant progress was made in all these areas during 2003.

IT made strides in both the conversion of workstations and the transition to Microsoft Outlook® e-mail application, a key part of the ACE initiative. As of September 2003, IT was ahead of schedule and had transitioned more than 50,000 users (of 130,000 total users) to ACE workstations. IT had also successfully completed the conversion to Microsoft Outlook, which involved the transfer of more than 121,000 users from the former internal e-mail system, cc:Mail, to Microsoft Outlook.

IT addressed several other aspects of the ACE initiative during 2003:

■ Consolidated 114 field help desks (from districts, areas, and bulk mail centers) into one help desk. Centralizing user support services has not only helped the IT organization streamline its operations, but has also provided the Postal Service user community with enhanced levels of customer service, through standardized responses and greater quality control.

■ The goal of reducing server locations from 11,000 to 600 in the field resulted in more than 3,000 servers being taken out of the field during 2003. Eliminating unneeded servers has generated cost savings for the organization and has provided IT managers with more oversight of these units. During 2002 and 2003, IT had removed a total of 7,000 servers from the field.

■ Converted more than 125 of the 147 national applications to ACE. Having all Postal Service national applications conform to the same set of standards allows the organization to streamline application management procedures and future system integrations.

During 2004, IT will focus on converting remaining users to ACE workstations. The project will also involve the consolidation or elimination of 2,700 unregistered duplicate Web sites and the retirement conversion of 1,360 local applications that are unable to run in ACE. Not only will all these changes add up to faster systems and higher quality service, but they also are expected to generate considerable cost savings. Through its successful ACE efforts, the Postal Service is on a path to save more than $200 million by 2006.

2. Information Technology Security

Postal Service operations rely on the organization's secure information technology platform. IT maintained and measurably enhanced the security of its computing environment in 2003.

Internally, IT concentrated on educating staff and evaluating existing systems' security. Building on the success of earlier training initiatives, security awareness training was extended to more than 151,000 employees, including 900 managers, during 2003. IT certified the security of almost half of all systems that were assessed as critical/sensitive. With regard to contingency planning, 57 percent of critical applications had compliant recovery plans in place at the end of 2003.

The Information Technology organization has protected the Postal Service infrastructure from outside threats as well. During 2003, advanced applications and sensors were put in place to handle the automated monitoring of systems and the prevention of system intrusions. In 2003, these applications were scanning more than 5.5 million Internet e-mail messages monthly, preventing an average of 66,000 viruses and harmful e-mail messages from entering the system each month. More than 3,200 sensors were deployed to monitor and guard against intrusion attempts.

IT will continue to address security issues from both internal and external perspectives. The ever-growing number and changing nature of security threats require that the IT

organization remain vigilant and continue its commitment to maintaining the security of Postal Service information resources.

3. Universal Computing Connectivity

During 2003, the IT organization moved closer to offering computing connectivity 24 hours a day, seven days a week, not only to managers, but also to other employees across the organization. Known as the universal computing connectivity initiative, this program has involved the development of a corporate-wide network that combines voice, data, and video in a single design. In support of this initiative, consolidated, managed network services that provide high-speed access for all users have been evaluated and implemented.

In the last year, IT successfully transitioned five critical sites (Headquarters, San Mateo, Eagan, Chicago, and Raleigh) to a high-speed data network. The transition of the 500 largest field sites was also completed, as was the transition of 39 out of the 196 network storage devices. Currently, IT is evaluating providers' proposals for the next phase of the project — the transition of 15,000 field sites to this network.

Another area of focus has been making management connectivity more portable by further developing and implementing BlackBerry technologies. During 2003, a wireless BlackBerry infrastructure was established and efforts to make the Postal Service's "continuity of operations plan" information available to over 2,100 managers via these devices were well underway. The electrical blackout of the northeastern United States in mid-2003 put the system to one of its first tests and proved its value to managers, who were kept in contact even when Postal Service facilities were without power. The goal of this connectivity initiative is to simplify the difficult jobs of managers by enabling them to use their time more effectively and accomplish their objectives through the use of handheld devices that provide wireless communications, anytime, anywhere.

In 2004, IT will continue its work on the connectivity initiative, focusing largely on the transition of 15,000 field sites to the new high-speed network. This and other related initiatives will bring universal connectivity to even more employees over the next year.

4. Enterprise Data Warehouse

Key to the IT organization's goal of centralizing and simplifying operations is the creation of an *enterprise data warehouse* — a collection of data from multiple sources that provides a single repository for the Postal Service's information resources. Currently, applications across the Postal Service collect and report redundant data and create a situation in which data may be entered differently in two systems. Not only does the creation of a data warehouse reduce the potential for information to be entered differently in two systems, but it also reduces the amount of time that staff must devote to querying systems and retrieving information.

Currently, the Postal Service supports an average of 100,000 queries to its databases each day. Demands will increase as the organization completes its conversion to a monthly reporting financial system that requires the collection, storage, and use of detailed data, summarized in daily, weekly, and monthly views. Postal Service databases are being asked to respond to these and other increasing requirements, and the new EDW initiative will be key to an efficient and effective response.

During 2003, IT transitioned 12 systems (five of which included Retail/POS, Retail Accounting, Purchasing, Transportation Contracts/Performance, and General Ledger) to the EDW. The transition of five additional applications is in progress.

In the next year the Postal Service will integrate even more applications into the enterprise data warehouse. With more and more applications using the technology, there will be a need to implement policies and procedures to govern its use. IT already has plans to create and enforce the guidelines needed to ensure the accuracy of information in the warehouse, thereby establishing the

system as the Postal Service's source for the most current, correct, and comprehensive information possible.

M. Intelligent Mail

Over the last five years, the Postal Service has been providing information about mail to its customers in product offerings such as Express Mail, Delivery Confirmation, Address Change Service, and CONFIRM services. These offerings have been well received by customers. Nevertheless, while today's Postal Service collects hundreds of terabytes of data, only a small fraction of those data can be accessed and leveraged by Postal Service employees to favorably impact the processing and delivery of mail, and by customers to better serve their business needs.

The capture and use of real-time information has revolutionized postal products and services. In the global delivery market, "track and trace" services are becoming the norm rather than the exception. Provisioning and utilizing information about mail will become a major factor in the Postal Service's future viability and its ability to remain a significant player in the marketplace. The term Intelligent Mail is the brand name for a new service that captures and conveys information about mailpieces and aggregate of mailpieces (unit loads) in time for postal workers and customers to favorably influence their respective operations.

The Intelligent Mail and Address Quality organization was established in January 2003 to identify and shepherd the efforts required to move the enterprise toward an Intelligent Mail system that enables decision-making in time frames that influence mail processing and delivery. An Intelligent Mail Corporate Plan was developed to communicate the vision, strategies, and programs required to achieve such a system.

The following statement defines the Intelligent Mail Vision of the Postal Service:

The Postal Service and its customers capitalize on the value of information about mail by placing an information-rich code on mail, aggregates of mail, and business forms, enabling end-to-end visibility into the mailstream.

Three key strategies set the direction toward achieving the Intelligent Mail Vision:

- Uniquely Identify Mail and Aggregates — OneCode Vision.
- Develop and Deploy Enabling Infrastructure.
- Enhance Address Quality.

1. OneCode Vision

For mailers participating in an Intelligent Mail program, mailpieces and aggregates of mail will be uniquely identified with a code to enable end-to-end process tracking and full visibility of mail and aggregates. The OneCode Vision service strives to create one distribution code per mail type and aggregate that will also encompass or point to all relevant services — such as address change request, Delivery Confirmation service, etc.

More than 30 barcodes can be found in today's postal environment. To achieve the OneCode Vision, the Postal Service will begin by minimizing the number of codes used through standardization and consolidation. A Coding Standardization Board was established in 2003 to provide a logical framework for coding determination and assignment, and to ensure that all coding decisions satisfy business needs.

a. Unique Identification for Letters and Flats

Currently, the maximum length of a PLANET barcode used for CONFIRM service is 11 digits, which does not provide mailers the ability to uniquely identify each mailpiece. A 4-state barcode has about 2.6 times the information carrying capacity of a PLANET barcode (which is a 2-state barcode) of similar size. The near-term plan is to adopt a 4-state barcode to replace the PLANET Code so that mail can be uniquely identified without requiring more space on the face of

the envelope. Development of a 4-state barcode specification was initiated in 2003, with testing expected in 2004.

The current Address Change Service (ACS), an automated electronic process for providing address corrections, requires mailers to print alphanumeric characters (keyline and participant code) in the address block that would be either automatically read or manually keyed on the Postal Automated Redirection System (PARS). A new PLANET barcode to represent the alphanumeric characters has been developed with the goal of reducing manual keying on PARS.

A study of mailing industry processes and technologies was initiated in 2000, and an update was conducted in 2003. This study gathered critical information about the mailing industry and mailing technology to ensure that future address and coding standards can be readily adopted by the mailing industry. It will also guide the Postal Service in developing strategies to align the mailing industry's capabilities and technology obsolescence and replacement pattern with the Postal Service's emerging Intelligent Mail initiatives.

b. Unique Identification for Parcels and Bundles

Responding to the needs of mailers who present Standard Mail and Periodical flats in presorted bundles, the Postal Service is extending track and trace capability to flats bundles. A barcode for bundles has been defined to uniquely identify bundles so they can be tracked when sorted on material handling systems in mail processing plants and when handled at the Delivery Units. The barcode will include the level of presort and the delivery unit ZIP Code to facilitate automated sorting in the plants. Testing is expected in 2004.

Today, retail customers apply a barcoded label for Delivery Confirmation service and each of the special services, such as Registered Mail and Insured Mail. This requires multiple labels to be applied and scanned. An effort was initiated in 2003 to consolidate nine of the common retail ship-

ping labels into a Standard Shipping Label (SSL) that would be generated by the Point of Service (POS) ONE terminals and on self-service platforms. A preliminary design of the SSL was completed in 2003 and is being evaluated. Testing on BMC equipment was conducted to understand how barcode characteristics affect read rate in order to guide the design of the SSL. A final version of the SSL specifications is expected to be released in 2004.

c. Unique Identification for Unit Loads

The current tray and sack labels do not contain unique identification and therefore cannot be used for tracking. An Enhanced Distribution Label (EDL) has been developed to provide unique identification for trays and sacks. Similarly, a barcoded label for uniquely identifying containers has also been developed. These labels along with Radio Frequency Identification (RFID) tags were tested in a series of Surface Visibility Pilots that began in late 2003.

2. Enabling Infrastructure

The Postal Service will develop and deploy a set of enterprise-wide common infrastructures to generate and capture codes on mail and aggregates, and disseminate the information in near real time. Prepositioned, leveragable infrastructure enables an enterprise to quickly build and deploy business applications that respond to emerging customer and internal needs.

a. Code Generation and Capture Infrastructure

The wide field of view (WFOV) camera being deployed on all letter mail automation equipment currently reads POSTNET barcode, PLANET barcode, the information based indicia (IBI) and other 2-dimensional barcodes. In support of the initiative to potentially adopt a 4-state barcode for CONFIRM and other services, a developmental effort was initiated in 2003 to modify the WFOV camera software to capture and decode 4-

state barcodes. Testing and deployment of the new decoding software is planned for 2004.

A similar effort is underway to enable the cameras on flats sorters to decode Delivery Confirmation-type barcodes, barcodes used in special services, 4-state barcodes, and IBI and other two-dimensional barcodes.

Modifications to PARS software to read ACS related data encoded in the 4-state version of the PLANET barcode began in 2003, and testing is expected in 2004. This would improve the productivity of PARS in providing address correction services.

Common infrastructure reduces acquisition and operating costs. By developing a common set of requirements and specifications for barcode scanners on POS ONE terminals and using it for the Phase 3 procurement, the Postal Service was able to significantly lower the cost of scanners across all POS ONE terminals regardless of manufacturers. These scanners will be capable of supporting the Standard Shipping Label that is being defined.

To support the Enhanced Distribution Label, an Automatic Tray Label Assignment System (ATLAS) is being developed to create unique labels for trays and sacks. Pilot testing of ATLAS began late in 2003, and will continue into 2004. It also supports the Surface Visibility Pilots.

Currently, mail processing equipment is equipped with thermal printers to produce tray labels. These printers are nearing the end of their useful life, and better printers are now available. A new model has been selected as a replacement. It is backward compatible and offers higher print speed and quality. As the aging printers are retired, they will be replaced with the new printers.

b. Data Communications and Storage Infrastructure

The backbone of all postal automation programs is a local area network (LAN) at each plant that provides the underlying data handling infrastructure. It 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. The existing LANs have a rudimentary design that merely provides a conduit for data for specific sets of equipment and computers that need to communicate with one another. As more automation equipment was deployed, multiple LANs were installed. Due to the increase in scope and sophistication in automation, over the years, the current LANs are no longer adequate to provide the capacity, reliability, and supportability needed in today's environment. Fixing or replacing these LANs on a piecemeal basis is costly and inefficient.

In 2003, the Board of Governors approved $35 million of capital funding to build the Mail Processing Infrastructure (MPI) for 62 processing and distribution centers. The MPI uses a flexible, wired infrastructure that the telecommunications industry calls *structured wiring*. It is a set of standards for the design and installation of networks to maximize performance by ensuring flexibility, adequate bandwidth for communication between devices and integrity of the data traffic. It is the worldwide wiring standard today because it provides the highest reliability, scalability, and manageability at the least cost. Deployment of this phase of MPI began in 2003 and will be completed in 2004.

The Integrated Data Systems were rolled out to the processing and distribution centers in 1998 as a centralized local storage infrastructure for equipment end-of-run reports and mail tracking data. The same infrastructure is now being implemented at all the BMCs to provide mail visibility. Deployment is scheduled to be completed in early 2004.

Scanning of mail items with Delivery Confirmation, Certified Mail, Registered Mail, or other special services at overseas military units was introduced in 2003. This positions the Postal Service to better serve the merchandise mailers who ship orders to overseas military units.

A new, secure Electronic Data Interchange channel through the Internet was implemented for interchange of data with air

carriers. This is in support of the new Air System Contract, which intends to increase the value of the service provided by the commercial air industry to the Postal Service through the use of a verifiable performance-based compensation system.

3. Address Quality

The Postal Service and its customers depend extensively on the completeness, accuracy, and currency of address information in every aspect of their business functions, including list management, mail preparation, and mail processing and distribution. Because all mailpieces require an address to complete the delivery service, any code used to identify mailpieces must include or point to a delivery code. Poor quality of the delivery code directly impacts the cost of postal operations and service performance due to redirection and extra handling. Poor quality also diminishes the value of information inherent in Intelligent Mail.

As the Postal Service pursues increasing levels of automation to control cost and improve services, the importance of address quality also increases. Enhancing address quality is therefore an important strategy of the Intelligent Mail service. The Postal Service must ensure that the National Address Database and the National Change-Of-Address Database are accurate and up-to-date. In partnership with licensed and certified vendors of directory services and supporting software, the Postal Service must also support the mailing community in ensuring the accuracy of their mailing lists and postal code generation software.

a. Move Update Implementation

The Move Update requirement of Classification Reform, which became effective July 1, 1997, was established to reduce the estimated $1.9 billion annual expense and negative service standard impacts that undeliverable-as-addressed (UAA) mail creates. The requirement specifies that addresses used to obtain all First-Class Mail presorted and automation discount rates must be updated for move activity within 180

days (six months) prior to the date of mailing by a Postal Service-approved method. Address Management has direct responsibility for all approved methods with the exception of the manual address correction process, which is mailpiece endorsement based. The Address Management processes include the following:

1. Address Change Service

ACS provides change-of-address (COA) information or reason for nondelivery electronically to participating customers. Each electronic notification costs $0.20 whereas the hard copy rate is $0.70. However, participation in the ACS does not completely eliminate the provision of manual address correction notifications.

2. National Change of Address

The National Change of Address (NCOA) option is available only through companies licensed by the Postal Service to offer this service. The mailer's computerized list is matched with official Postal Service customer provided permanent COA orders received from individuals, families, and businesses within the past four years.

3. FAST*forward*

FAST*forward* technology may be used in one of two ways:

Multiline Optical Character Reader (MLOCR) — Allows licensed users to comply with the Move Update requirement as they actually process mail, provided that the mail is automation-compatible. As mail is run through the MLOCR, the system automatically checks names and addresses against a national Postal Service database that contains only permanent COA records from the past 13 months.

Mailing List Correction — Provides FAST*forward* licensees the ability to update computer-based name and address mailing lists electronically prior to the creation of the mailpiece.

4. Alternative Methods

A Postal Service-approved alternative method is used when none of the above methods apply and is administered by Address Management.

List Already Accurate — Mailer Move Update Process Certification requires a mailer to provide 100 percent of an electronic version of an address list to the Postal Service who will match the list against the Postal Service change-of-address information for an initial charge of $1.00 per thousand records with a minimum charge of $100.00.

Legal Restraint — Is available for mailers who document that they are legally restrained from using COA information from sources other than directly from their customers.

b. 100 Percent Database Quality

Address Management is making progress toward the goal of providing a 100 percent accurate Address Management System (AMS) database, by pursuing an aggressive policy of ongoing quality reviews and by developing technological and procedural improvements to ensure better communication between delivery and field AMS sites. These steps have resulted in improvements to the quality of the AMS database. AMS now provides more timely delivery point address information for use in all automated mail processing, barcoding, and sorting operations. It also is the source of all address information products required by the commercial industry to prepare automation compatible mailings.

In 2000, the Postal Service initiated the National AMS Street Review Program, moving responsibility for AMS data quality measurements from the areas to Headquarters and ensuring that the measurements are applied evenly across the nation. The team reviewed over 1,840 individual carrier routes in 2003.

c. Address Quality Improvement

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

1. Address Element Correction

The Address Element Correction (AEC) service was designed to correct addresses that could not be matched to the Postal Service's national ZIP+4 code file using Coding Accuracy Support System (CASS) certified address-matching software. AEC corrects deficient addresses and identifies those that do not exist. Already, millions of addresses in mailers' files have been examined and corrected, leading to improved customer satisfaction.

AEC uses a variety of computer logic resolution processes to correct as many addresses as possible. It also produces a diagnostic report about the mailer's list management practices. The current electronic service resolves, on average, 29 percent of the previously unmatched addresses. More than 23 million addresses were processed in 2003 with 6.9 million addresses corrected.

2. Barcode Certification

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

3. Coding Accuracy Support System

CASS software improves the accuracy of the carrier route, five-digit ZIP Code, ZIP+4 code, and delivery point codes that appear on mailpieces. The program is a quality control measure that ensures that software vendors provide accurate, updated information and software to customers who purchase this information to process their mailing lists. CASS software is available to all mailers, service bureaus, and software vendors who want to evaluate their address-matching software and improve the quality of their

ZIP+4, carrier route, and five-digit coding accuracy. The NCSC grades this process and the results are returned to mailers to provide useful diagnostics for correcting deficiencies. CASS software enables the Postal Service to evaluate the accuracy of address-matching software programs in three areas: (1) ZIP+4 delivery point coding, (2) carrier route coding, and (3) five-digit coding. CASS software allows vendors and mailers the opportunity to test their address-matching software packages and, after achieving a minimum percentage of accuracy, be certified by the Postal Service.

4. Multiline Accuracy Support System

The Multiline Accuracy Support System (MASS) technology is an extension of CASS software. While CASS software focuses on the processing of addresses stored electronically in computer data files, MASS technology tests the quality of address matching occurring on multi-line optical character reader (MLOCR) equipment and direct-view encoding stations. These systems have to lift an address image directly from a mailpiece to accomplish processing. MASS technology allows vendors and mailers the opportunity to test their machines and, after achieving a minimum percentage of accuracy, be certified by the Postal Service.

5. Customer Notification Letter

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

also information on how customers may notify others of their new address, and a reminder to register or re-register to vote.

These notifications are generated for COAs entered into the Computerized Forwarding System database on a daily basis. They are mailed within 24 hours of receipt by the National Customer Support Center in Memphis, TN. More than 44 million Customer Notification Letters were mailed in 2003.

6. Locatable Address Conversion System

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

7. Presort Accuracy Validation Evaluation

The Presort Accuracy Validation Evaluation (PAVE) program is a process designed in cooperation with the mailing industry to evaluate presort software and determine its accuracy in sorting address files according to DMM standards. PAVE is available only to companies that develop presort software or manufacture presorting equipment for resale or internal use. Participation in the program is purely voluntary. Although this program evaluates and validates presort products manufactured by the developers, PAVE does not guarantee acceptance of mail prepared using PAVE-certified hardware and/or software. However, it does provide national approval of computer-generated facsimiles of Postal Service postage statements, standardized documentation, and other presort documentation.

8. Rapid Information Bulletin Board System

The Rapid Information Bulletin Board Systems (RIBBS) provides mailers online access to an excellent variety of download-able Postal Service information such as Customer Support Rulings, *Federal Register* notices, weather and natural disaster condition reports, *Domestic Mail Manual* labeling lists, and certified vendor information, just to name a few. RIBBS users may also post questions and receive answers concerning postal products and services. RIBBS is geared toward business mailers but is open to anyone seeking information about the Postal Service. File areas are provided to allow distribution of various Postal Service products and services.

9. Electronic Address Sequencing

Centralized electronic address sequencing service eliminates field workhours in the handling of manual address sequence cards and improves the consistency of the service provided. With average processing times of less than 5 days, the electronic service assists walk sequence mailers in updating their address lists in a much more efficient and time-saving fashion. In 2003, over 94 million addresses were processed for 252 customers. Validating that number of addresses via the manual card process would have cost over 60,000 workhours during the year.

d. The Welcome Kit

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

N. Financial Management

The Postal Service has undertaken financial management initiatives to improve operational efficiencies, reduce administrative and program costs, manage risk, ensure compliance with federal law, and enhance transparency in reporting to our stakeholders and the public. The key initiatives now underway are reported here.

1. Activity-Based Costing

Activity-Based Costing (ABC) is a methodology designed to assist managers in reducing expenses by assigning both direct and overhead costs to an organizational unit's operations and the outputs it produces. Using information from existing Postal Service financial and operational systems, the Postal Service currently is implementing an ABC model that contains activity and product costs for 388 processing facilities. Metrics are generated each reporting period using commercial off-the-shelf software.

In 2003, the ABC team expanded its costing model to include 78 customer service facilities that perform mail processing operations. During 2003, the Postal Service trained over one thousand managers and staff across the country in ABC. The training included sessions on ABC concepts and on Web-based reporting software.

ABC is a simplified tool that identifies potential areas where high costs can be reduced. As an example, using one of ABC's

reports, the Central New Jersey District identified high costs in the Opening and Dispatch Activity of one of its processing and distribution centers. Consequently, management determined that the high cost was due to suboptimal scheduling. Staff schedules were subsequently realigned and local management estimates that in the future the plant could save a minimum of 5,000 hours per year.

The development of a new cost model for bulk mail centers is planned for 2004.

2. Monthly Reporting

At the start of 2004, the Postal Service began reporting interim financial results on a calendar month basis.

Previously, the Postal Service reported interim financial results on a rolling four-week accounting-period basis. The accounting period consists of two bi-weekly payroll cycles totaling four weeks. Thirteen accounting periods comprise the entire postal fiscal year (PFY), which consists of exactly 52 weeks or 364 days. The Postal Service has always made its annual financial reports on a government fiscal year (GFY) basis. Because the PFY is only 364 days long, the PFY and the 365-day GFY have become increasingly misaligned.

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

During 2002, the Postal Service completed a review of all existing information systems and targeted approximately 190 systems that required conversion to monthly reporting. The interim procedures enabled 2003 data to be reported in an accounting period format while also allowing the capture of daily transaction data to create monthly reports. In August 2003, with availability of the new general ledger system, the Postal Service began to recast 2003 data into monthly reports.

Approximately 175 systems have been recast in a monthly format with data from 2003 representing a full year of financial history. Due to the business closing process for those applications, the remaining systems were recast in November 2003.

3. Standard Accounting for Retail

The Standard Accounting for Retail (SAFR) project was fully deployed in September 2003 with all units reporting revenue on a daily basis. SAFR is a new Postal Service field accounting system that uses commercial-off-the-shelf software packages and best business practices to collect and report revenue activity on a daily basis. Data are available in the Accounting Data Mart within the Postal Enterprise Data Warehouse. SAFR increases management information and enables daily revenue information reporting by postal retail location.

4. Shared Services/Accounting

The Shared Services/Accounting (SS/A) was fully implemented by September 2003. SS/A is a re-engineering of residual field accounting processes of the Postal Service. Using the SAFR system as the cornerstone, field accounting processes have been redesigned and streamlined for efficiency with many resulting policy changes. Work associated with the re-engineered processes will be performed in the Postal Service's three accounting service centers, rather than in 85 districts. Documents will be imaged, eliminating paper and storage. A national accounting help desk will respond to all questions relating to accounting, payroll, and POS ONE. Pilot test sites were brought into SS/A in November 2002, resulting in the closure of the first four district accounting offices. Implementation of SAFR and SS/A projects enabled the establishment of an internal control group in each district. This group evaluates risks, conducts management

reviews to determine causes of control risks and provides assistance in reducing and eliminating the control risks.

5. Excellence in Accounting through the General Ledger

The Excellence in Accounting through the General Ledger (eaGLe) project was implemented on October 1, 2003. The eaGLe project is a joint effort between the Finance and Information Technology groups to replace the current General Ledger (GL). The GL system is the core of the Postal Service's financial reporting systems with all financial activity and results processed through the system. The main legacy systems were 15–25 years old and were programmed in languages no longer supported by software providers. Use of commercial-off-the-shelf software enables improved support capabilities, flexibility to adapt to changing business processes, and supports all period reporting and finance/unit level reporting to the lowest levels of the organization. All management information reporting will be through the Accounting Data Mart view of the Enterprise Data Warehouse.

6. Time and Attendance Collection System

The Time and Attendance Collection System (TACS) was fully deployed by the end of 2003. By the end of 2003, all Postal Service employees were being paid based on time entered in TACS. It replaced five time and attendance systems, including the Postal Source Data System (PSDS), in existence since the late 1960s. The change reduced system support and administrative costs. The TACS Adjust Pay program, which enables local corrections of timekeeping information, was rolled-out in conjunction with Shared Services/Accounting.

7. Bank Secrecy Act Compliance

In order to combat money laundering and terrorism in the United States, Congress enacted a series of laws from 1970 through 2001 which required financial service businesses and banks to detect, deter, track, and report certain cash transactions to the United States Department of the Treasury. This legislation, which has become known as the Bank Secrecy Act (BSA), further mandates that these institutions monitor and ensure their employees' compliance with the BSA law. The Postal Service, which sells money orders and provides international funds transfers, is specifically named in the Act and must meet all of the requirements of the law as a money service business. The Postal Service launched its automated reporting system in 1997 and enhanced the system to include electronic reporting in 2001. In 2003, the Postal Service further enhanced its compliance efforts by implementing a back-office analysis system. This powerful system supplements the Postal Service's point of sale efforts and is able to detect potentially suspicious activity that is not discenible at the point of sale due to the sophistication of some criminal activities.

The Postal Service Bank Secrecy Act Compliance Office reduces risk for the organization by ensuring that the Postal Service complies with all requirements of the law. Additionally the BSA Compliance Office is tasked with ensuring the security of data gathered through the compliance system. The Postal Service understands that gathering information from members of the public is a sensitive issue. The data must be safeguarded and information must be retained only as prescribed by the Act. To ensure that the proper balance is maintained between the compliance and the public's right to privacy, the BSA compliance officer works closely with the chief privacy officer.

8. Internal Controls

A key goal of the *Transformation Plan* is that the Postal Service culture be more performance based. Realization of that goal requires that the Postal Service assure accountability in each of its processes.

Accordingly, the Postal Service has established an internal control function that will minimize the level of risk that is normally associated with each process and ensure that accountability is maintained. The new internal control function is directed by Headquarters and operates through a team of staff experts who are trained internal control analysts. Control analysts are assigned as consultants to the management of each performance cluster to assist those managers in optimizing performance under existing internal controls and policies within their cluster.

Control analysts are charged with identifying and evaluating control processes and policies which need improvement. Risk evaluations will be conducted at both the area and national levels. These evaluations are data based and will reveal weaknesses in existing controls, processes and policies which will then be prioritized for improvement on a national basis. To maintain the efficiency and effectiveness of internal controls, evaluation results will be reported quarterly to management. This active, integrated internal control system will enable the Postal Service to enhance revenue assurance, accountability, and operational efficiency and, thereby, to enhance customer satisfaction.

In 2003, the Internal Control function established and trained field staff. Today, there are 80 Internal Control Group (ICG) field managers, each of whom has received over 40 hours of training consisting of orientation to internal controls, risk prioritization tools and, data mining tools and techniques. Each ICG field unit consists of an ICG analyst who will be conducting reviews based on data driven indicators. There are now approximately 500 field ICG staff members actively conducting reviews of the Postal Service's internal control processes. As part of the ongoing training of field staff, the Institute of Internal Auditors will present a customized Risk and Control course to the field staff in January 2004. The course will familiarize ICG staff with the requirements of the Sarbanes-Oxley Act of 2002 and provide instruction in methods to evaluate current Postal Service controls.

9. Universal Decision Analysis System

Currently there are a variety of tools, systems, and software to complete decision analysis documents that are used for planning, approval, tracking, and post implementation reviews. The Universal Decision Analysis System (UDAS) will be a standardized, analytical tool following program management principles that addresses the five phases for programs and projects: concept, planning, design, implementation, and review and close-out. Existing tools, systems, programming, or technology will be used to develop a core tool that will integrate with all functional area processes to provide a standard, validated model. Conceptual and planning activities for UDAS began in 2003, and implementation is expected in 2004.

This universal tool will assist in facilitating the prioritization, development, approval, and management of projects and programs. This standard approach will also eliminate the need for outsourcing the development of decision documents. This model will provide improved internal controls, allow for more in-depth financial and risk analyses, and allow for the development of performance measures to track program success and accountability following program management guidelines.

A. Financial Summary

The Postal Service has sought to avoid redundancy between the *2003 Annual Report* and this *2003 Comprehensive Statement on Postal Operations*. In this chapter, financial highlights are presented in a condensed format. Discussion and analysis are focused on Postal Service financial results for 2003; 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. More detailed analysis of the financial results of postal operations for 2003 is provided in the Postal Service's *2003 Annual Report*.

1. Revenue

In 2003, operating revenue grew 3.1 percent to $68.5 billion, with a volume decline of 0.3 percent. This marked the third consecutive year of mail volume decline. Volume declined first in 2001 with the onset of economic recession. In 2002, continuing economic weakness, the disruptive effects of the September 11, 2001, attacks and bioterrorism, and the R2001-1 rate increase all

contributed to still greater volume decline. The early implementation of R2001-1 rates boosted revenue by almost $1 billion, however, and was the major contributor to the revenue increase. In 2003, continuing economic softness contributed to this third consecutive volume decline.

2. Expenses

Compensation and benefits dominate Postal Service expenses, comprising nearly 80 percent of total expenses. These costs are detailed in Table 3-2. In 2003, management continued to control personnel costs aggressively, cutting workhours by almost 54 million and reducing career complement by approximately 24,000. These actions, coupled with the CSRS funding reform legislation, led to a reduction in compensation and benefits expenses of 2.2 percent, $1,129 million down from the growth of $206 million (0.4 percent) in the previous year. Still, higher costs per work hour and rising health benefit premiums continued to exert upward pressure on expenses. 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

table 3-1 revenue and volume by class of mail

	Revenue*				Volume (pcs)*			
	2003 ($ million)		2002 ($ million)		2003 (million)		2002 (million)	
First-Class Mail	$37,048.3	54.06%	$36,483.2	54.89%	99,058.7	48.99%	102,378.6	50.48%
Standard Mail	17,203.1	25.10%	15,818.8	23.80%	90,358.5	44.69%	87,230.6	43.00%
Priority Mail	4,494.3	6.56%	4,722.5	7.11%	859.6	0.43%	998.2	0.49%
Special Services	2,797.8	4.08%	2,654.5	3.99%	0.0	0.0%	0.0	0.00%
Periodicals	2,234.8	3.26%	2,164.9	3.26%	9,319.9	4.61%	9,689.8	4.78%
International	1,615.3	2.36%	1,579.8	2.38%	939.1	0.46%	903.8	0.45%
Express Mail	888.1	1.30%	910.5	1.37%	55.8	0.03%	61.2	0.03%
Other	2,247.5	3.28%	2,129.1	3.20%	1,593.1	0.79%	1,559.6	0.77%
Total	$68,529.2	100.00%	$66,463.3	100.00%	202,184.7	100.00%	202,821.8	100.00%

* Note: See the Postal Service's *2003 Annual Report* for Revenue, Volume, and Weight information by Class of Mail.

employees and retirees, another significant expense driver, increased by $471 million in 2003, a 9.1 percent increase. Enactment of Public Law 108–18 in April 2003 resulted in a dramatic decrease in interest expense on the deferred Civil Service Retirement System (CSRS) liability, reducing this expense to $116 million which was a 92.8 percent reduction in these costs from the prior year. This change is discussed in detail in Chapter 3, Section C, Civil Service Retirement System Legislation.

table 3-2 analysis of expenses

	2003 ($ million)	2002 ($ million)	Variance	% Change
Personnel				
Compensation	$37,144	$36,877	$267	0.7
Benefits	13,284	14,680	(1,396)	(9.5)
Subtotal	50,428	51,557	(1,129)	(2.2)
Nonpersonnel				
Transportation	4,989	5,132	(143)	(2.8)
Supplies and Services	2,413	2,614	(201)	(7.7)
Building Occupancy	1,687	1,653	34	2.1
Depreciation	2,295	2,296	(1)	0.0
Interest Expense				
Deferred Retirement	116	1,601	(1,485)	(92.8)
Borrowing	694*	340	354	104.1
Other	2,274	2,171	103	4.7
Subtotal	**14,468**	**15,807**	**(1,339)**	**(8.5)**
Total	$64,896	$67,364	($2,468)	(3.7)

* Includes $360 million in debt repurchase expense.

table 3-3 workers' compensation expense and cash payments

	Estimated Annual Increase/Decrease in Liability for Active Claims ($ million)	Administrative Charge (DOL) ($ million)	Total Annual Expenses ($ million)	Payments to DOL for Postal Service Active Claims and Admin. Charges* ($ million)
1993	928	17	945	487
1994	311	16	327	501
1995	860	17	877	520
1996	718	19	737	531
1997	187	19	206	538
1998	739	21	760	567**
1999	583	20	603	585
2000	891	20	911	671
2001	937	33	970	694***
2002	1,474	37	1,511	818****
2003	1,412	45	1,457	892*****

* Payments in this table are on cash basis 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. Payments exclude all payments for Post Office Department (POD) claimants.

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

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

**** Includes $32 million paid for 2002 administrative expenses and $27 million paid for 2003 administrative expenses.

***** Includes $6 million paid for 2002 administrative expenses, $18 million for 2003 and $45 million for 2004.

table 3-4 income and expense statement

	2003 ($ million)	2002 ($ million)	Difference ($ million)	% Change
Income				
Mail Revenue	$65,701	$63,761	$1,940	3.0
Special Services	2,797	2,654	143	5.4
Revenue Forgone Appropriation	31	48	(17)	(3.5)
Operating Revenue	68,529	66,463	2,066	3.1
Expense				
Compensation and Benefits	50,428	51,557	(1,129)	(2.2)
Other Costs	13,474	13,677	(203)	(1.5)
Operating Expense	63,902	65,234	(1,332)	(2.0)
Income From Operations	**4,627**	**1,229**	**3,398**	**276.5**
Interest Income	58	46	12	26.1
Interest Expense on Deferred Retirement Costs	(116)	(1,601)	(1,485)	(92.8)
Interest Expense on Borrowing	(694)†	(340)	354	104.1
Emergency Preparedness	177	179	(2)	(1.1)
Emergency Expenses	(184)	(189)	(5)	(2.7)
Net Income/(Loss)	$3,868	($676)	$4,544	NM

† Includes $360 million in debt repurchase expense.

3. Net Contribution

The Postal Service posted a net income of $3,868 million in 2003, well above the planned income of $600 million. The principal drivers behind the achievement of this net income were increased efficiencies and the change in retirement funding legislated in April 2003.

In response to a 2003 mail volume shortfall and the resulting revenue below plan of $1.7 billion, the Postal Service managed expenses through its Flexible Budget process and increased productivity for an unprecedented fourth consecutive year. Supporting the goals of the *Transformation Plan*, the Postal Service reduced planned costs by a total of $2 billion in 2003, which included the workload savings associated with reduced volume. This resulted in a $300 million improvement to the $600 million budgeted net income. The legislated change in retirement funding produced a $3.4 billion positive impact on the bottom line and also prompted refinancing of the debt, at a cost of $0.4 billion, to better postion the Postal Service to retire debt in the accordance with Public Law 108–18.

The combined impact of these actions allowed the Postal Service to hold expenses to $64.9 billion, almost $2.5 billion less than 2002 expenses. This is only the second time since the establishment of the Postal Service in 1971 that expenses have decreased from the prior year.

4. Financing

The amount that the Postal Service borrows over time is largely determined by the difference between cash flow from operations and its capital cash outlays. From 1997 through 2002, capital cash outlays exceeded cash from operations by $5.4 billion, so the Postal Service covered the difference with borrowed funds. The Postal Service's debt outstanding with the Department of the Treasury's Federal Financing Bank increased from $5.9 billion at the end of 1997 to $11.1 billion at the end of 2002.

Postal Service debt management strategy, based on the recognition that it would most likely always have a core amount of debt outstanding, has been to maintain a mixture of fixed- and floating-rate debt and to strike a balance between short- and long-term debt. As interest rates declined to historically low levels during 2002, the Postal Service shifted the balance of its debt portfolio toward more fixed-rate long-term debt to reduce exposure to increases in future interest rates. The Postal Service began 2003 with $7.3 billion in long-term debt that carried a weighted average interest rate of 5 percent.

The enactment in April of Public Law 108–18, the Postal Civil Service Retirement System Funding Reform Act of 2003 (the Act), caused the Postal Service to reconsider this debt management strategy. The Act provided that the Postal Service apply all savings it realized under the Act in 2003 to debt reduction. The Act will have a similar, though somewhat smaller, impact on cash flow from operations and debt reduction in 2004. In 2005, savings will be used to maintain rates and to reduce debt. The Act's requirements for use of savings realized after 2005 are yet to be specified by Congress. Acting first on its previously established strategy and then in response to the new provisions of Public Law 108–18, the Postal Service conducted multiple debt refinancing transactions throughout 2003. The statutory debt reduction for 2003 could easily have been accomplished by paying off short-term debt. Meeting the debt reduction requirement for 2004 however, would have been a challenge as only $750 million of debt was scheduled to mature that year. In other words, in order to be consistent with the terms of the Act, some long-term debt would need to be repaid before maturity, at an unknown price, prior to the end of the year. Ultimately, the Postal Service refinanced all of its long-term debt during 2003.

In January, with a market opportunity to prepay some debt without a net penalty, the Postal Service paid off $777 million of long-term debt. In July, following enactment of Public Law 108–18, the Postal Service responded to another such market opportunity and prepaid an additional $547 million,

bringing the total amount of long-term debt refinanced to $1.3 billion. The repurchase price of Postal Service debt changes inversely to the market level of interest rates for treasury securities with similar maturity dates and terms. That is, if interest rates fall below the level at which Postal Service debt was issued, the purchase price of that debt increases above the issuance price. In this case, the Postal Service would have had to pay an up-front premium if it chose to retire this debt before maturity. Entering the year, the purchase price to prepay the $1.3 billion of retired debt was $68 million, and $778 million for the entire debt portfolio. If interest rates at the time of repurchase are roughly equivalent to the interest rates at the time of issuance, no up-front premium is required. That was the case when the Postal Service acted to retire $1.3 billion of long-term debt. With no up-front cost to retire this debt, the Postal Service realized savings from these transactions immediately. Interest expense was decreased by $28 million in 2003 and will be less by $60 million in 2004. The weighted average interest rate for the retired debt was 4.5 percent.

Then, in August, the Postal Service paid an up-front premium of $360 million, a charge to 2003 net income, in order to retire the remaining $6 billion of long-term debt. At the time of this final refinancing transaction, the spread between short-term rates and long-term rates was the widest experienced in 10 years. Moreover, long-term rates had increased rapidly in the weeks leading up to the transaction, while short-term rates had changed little. The higher long-term interest rates served to reduce the market-based repurchase price of the Postal Service debt portfolio which would have cost $948 million to prepay at rates effective as recently as June. The retired debt carried an average interest of 5.1 percent and was replaced by debt carrying an average interest rate of 1.1 percent. The economics of the refinancing were compelling, and may have been undertaken even without the legislative mandate to reduce debt. The debt restructuring accomplished in 2003 will allow the Postal Service to pay off a substantial amount of debt over the course of 2004 and to completely offset

table 3-5 financing history

	Year-End Debt ($ billion)	Average Debt ($ billion)	Interest Expense ($ million)
1999	6.9	3.9	158
2000	9.3	4.7	220
2001	11.3	6.4	306
2002	11.1	7.7	340
2003	7.3	7.6	694*

* Includes $360 million in debt repurchase premium.

the premium paid, with interest expense savings to be realized in less than 16 months. The interest expense savings resulting from this final debt prepayment were $34 million in 2003 and are expected to be $277 million in 2004.

Public Law 108–18, in providing for debt reduction, effectively created limits for Postal Service debt outstanding for 2003 and 2004. Specifically, Postal Service debt outstanding cannot exceed $7.6 billion in 2003. The Postal Service ended 2003 with $7.3 billion in debt outstanding, some $300 million lower than required by the Act. Accordingly, debt outstanding for 2004 cannot exceed $4.9 billion. Having accomplished debt restructuring, the Postal Service is now well positioned not only to meet but also to far exceed the Act's requirements for additional debt reduction in 2004. Further, the Postal Service is now positioned to apply all cash in excess of current needs towards debt reduction on a daily basis. As a result, in 2004, interest expense on Postal Service debt is projected to be the lowest since 1974. The Integrated Financial Plan for 2004 includes a projected debt reduction of $4.2 billion to $4.7 billion, well beyond the estimated $2.7 billion required by statute.

The Postal Service's opportunity for debt reduction in 2005 will depend upon its ability to operate at close to the break-even requirement, combined with its ability to hold capital expenditures to levels that approximate its depreciation expense. The level of debt for 2006 and beyond will be influenced by these same factors and will also be greatly influenced by the yet to be specified requirements

of Public Law 108–18. The law requires that savings attributable to the legislation after 2005 be held in escrow and not obligated or expended until otherwise provided for by law.

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 nonpersonnel costs. The Output per Workhour component of TFP uses only labor input as a measure of resource use.

table 3-6 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	(0.0)	11.3
1991	(1.8)	6.8	(0.1)	13.7	(1.0)	10.2
1992	0.4	7.2	1.0	14.8	2.0	12.2
1993	3.8	11.0	4.6	19.3	0.5	12.7
1994	(0.2)	10.9	0.8	20.2	1.0	13.7
1995	(1.9)	8.9	(1.3)	18.9	0.4	14.1
1996	(1.3)	7.6	(0.1)	18.8	1.4	15.5
1997	1.3	8.9	1.7	20.5	1.0	16.5
1998	(1.0)	7.9	1.2	21.7	1.2	17.7
1999	(0.1)	7.7	0.9	22.6	0.7	18.4
2000	2.2	9.9	2.0	24.6	1.4	19.9
2001	1.7	11.6	1.7	26.3	(1.1)	18.8
2002	1.0	12.6	2.2	28.5	4.1	22.9
2003	1.8	14.4	2.3	30.8	1.6	24.5

*   Output per work hour measures the change in the relationship between workload (mail volume and deliveries) and the labor resources used to do the work. The main output of the Postal Service is delivering mail and services to the expanding delivery network.

**   2002 and 2003 MFP data are estimates of Global Insights, Inc. The Bureau of Labor Statistics (BLS) data for these years have not 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 regular historical revisions by these agencies. When historical revisions are released, they are incorporated into the TFP calculation, and 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.

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 nonfarm business productivity reported by the Bureau of Labor Statistics (BLS). In recent years, MFP has become less useful as a benchmark measure for comparison of postal productivity because, as the United States economy has become more heavily weighted with high technology goods and services, MFP results have been more heavily influenced by that business sector. Productivity growth in the high-tech sector far outstrips that of the industrial and service sectors that are more akin to the Postal Service.

Table 3-6 shows annual and cumulative TFP and Output per Workhour compared to MFP for the years 1990 through 2003. Over the long run, a successful organization will average positive growth in productivity, as has the Postal Service, but year-to-year fluctuations in TFP and Output per Workhour are common. In 1990 and 1993, TFP and Output per Workhour showed exceptional growth. Slow growth or declines followed in 1994 through 1996 and positive growth was displayed again in 1997. In 1998 and 1999, TFP declined while Output per Workhour increased. Since 2000, the Postal Service achieved strong growth in both TFP and Output per Workhour.

The Postal Service's TFP growth of 1.8 percent in 2003 marks four consecutive years of positive growth. Output per Workhour growth was 2.3 percent. The TFP result is equivalent to $1,196 million in expense reductions. Cumulative from 2000, TFP growth is 6.7 percent, which is equivalent to $4.4 billion in expense reductions. Output per Workhour over this same period grew 8.2 percent.

When compared to years with strong positive TFP growth prior to 2000, the achievement of 2003 is significant. In previous years, strong TFP growth was fueled largely by workload growth. During the 1990s, TFP grew 0.2 percent annually, on average, while workload grew 1.9 percent annually, on average. In 2003, however, strong productivity growth was achieved through substantial restraint on resource usage growth. TFP growth of 1.8 percent was achieved in spite of a 0.6 percent decline in workload. The Postal Service effectively managed its use of resources to achieve a 2.4 percent reduction in total resource usage. Labor and materials usage declined by 2.9 percent and 1.4 percent, respectively. This achievement was in addition to the significant 2002 reductions in labor usage of 4.0 percent and materials usage of 0.6 percent.

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

Worksharing discounts to mailers affect Postal Service productivity performance. Worksharing incentives have shifted a greater proportion of the workload associated with automation compatible mail to business mailers. Worksharing discounts provide cost savings for the Postal Service and enhance the productivity of the economy as a whole. Worksharing, however, transfers the Postal Service's prime opportunities for productivity improvement to its partners, the mailers. In contrast, the Bureau of Labor Statistics measure, multifactor productivity (MFP), does not factor out self-service or worksharing on the part of the customer. Rather, MFP captures the whole of the economy, including productivity that has been transferred between segments.

C. Civil Service Retirement System Legislation

The Postal Civil Service Retirement System Funding Reform Act of 2003 was signed by the President on April 23, 2003. This Act adjusted Postal Service contributions to the Civil Service Retirement System (CSRS) to prevent over-funding its pension obligations for CSRS covered employees and retirees by $105 billion.

Public Law 108–18 makes several changes to both the determination of CSRS benefits that the Postal Service is responsible for and the way the Postal Service funds its CSRS benefit obligations. The Act transferred from the United States Department of the Treasury to the Postal Service the responsibility for funding the costs of CSRS benefits that current and former Postal Service employees have earned through military service. In relieving the Treasury of its responsibility for these costs, the Act created a direct cost transfer of $27 billion from U.S. taxpayers to postal ratepayers. Had this change in responsibility not been included in the Act, the Postal Service not only would have fully funded its CSRS obligations as of the end of 2002, but would have over-funded these obligations by $10 billion.

Recognizing the change in fundamental public policy that created that transfer of responsibility, Public Law 108–18 provides an opportunity to reconsider funding responsibility of these costs. The United States Postal Service, the Department of the Treasury, and the Office of Personnel Management (OPM) each submitted proposals "detailing whether and to what extent the Department of the Treasury or the Postal Service should be responsible for the funding of benefits attributable to the military service of current and former employees of the Postal Service" as required by the Act on September 30. The Postal Service recommended that the responsibility of these costs should be returned to the Treasury. This recommendation was based on the fact that 90 percent of the cost of military service benefit was earned by military service performed before the creation of the Postal Service on July 1, 1971. Additionally, $17 billion of the $27 billion cost transfer is wholly retroactive, relating to funding between the years 1971 and 2002 by Treasury in accordance with 5 U.S.C. 8348(g)(2).

Both the Department of Treasury and OPM recommended that the Postal Service should be responsible for these costs. To support this position, they indicated that benefits attributable to military service are a retirement benefit that Postal Service employees receive just like other benefits, and postal ratepayers should pay the full costs of all benefits received by its employees. Additionally, they believe that "the old law can be viewed as more of an historic accident than a deliberate policy choice." Accordingly, they believed that funding the cost related to military service was previously overlooked by Congress. Finally, they contended that the payment of military service costs for Postal Service employees is consistent with the funding of Federal Employees Retirement System (FERS), which includes the cost of military service.

Under the Act, the General Accounting Office (GAO) must prepare a written evaluation of each agency's proposal as to who should pay these costs earned through military service. That evaluation was submitted to the Committee on Government Reform of the House of Representatives and the Committee on Governmental Affairs of the Senate on November 26, 2003.

The Act also modified how the Postal Service funds CSRS obligations. It no longer makes either the 30-year payments related to the estimated cost of pay increases on CSRS benefits or the 15-year payments required to fund the cost of retiree COLAs. Under Public Law 108–18, the Postal Service began to pay 17.4 percent of current CSRS employees' wages to the retirement fund rather than the 7 percent previously paid. Also, in 2004, the Postal Service will be required to make the first of 40 annual payments currently estimated at $423 million to liquidate the newly-calculated unfunded retirement liability estimated at $4.8 billion as

of September 30, 2002. This liability will be reviewed and recalculated annually by OPM and revised as required.

The Act places additional requirements on the Postal Service. Specifically, the Act identifies the amount of the averted potential over-funding as "savings" to the Postal Service. "Savings" are defined as the difference between the contributions that the Postal Service would have made for each year if the Act had not been enacted and the contributions made by the Postal Service for each year under the Act. In 2003 and 2004, the Act provides that "savings" be used to reduce outstanding debt to the U. S. Treasury. The 2003 "savings" amount is estimated at $3.5 billion. The Postal Service reduced its debt with the Treasury by $3.8 billion in 2003, thus exceeding the requirements of the Act. Savings in 2005 will be used to hold postal rates steady until 2006 and savings accruing to the Postal Service after 2005, until otherwise provided for by law, must be placed in escrow. As required by Public Law 108–18, on September 30, 2003, the Postal Service submitted its proposal to the President, Congress, and the GAO, outlining how the "savings" under the Act should be used. The Act calls for Congress to revisit the issue of post-2005 "savings" after it receives the Postal Service's proposal and the evaluation of that proposal by GAO.

Beyond 2005, the escrow requirement of the Act, unless terminated, will result in not only increased postage rates but also more frequent postage rate increases as the over-funding amounts escalate. Accordingly, from the standpoint of the postal ratepayer, there are no "savings" under Public Law 108–18 after 2005, so long as the escrow continues in effect. The purpose of the escrow provision, as the Postal Service understands it, was to serve as a temporary forcing mechanism to compel all parties to face up to, and the Congress then to take action on, the important financial issues identified in the legislation's statement of the Sense of Congress. Based upon its impact on postage rates and the resulting negative consequences on the mailing industry, the general public, and the economy as a whole, the Postal Service has recommended that the escrow requirement be eliminated.

The Act records as the Sense of Congress that, "…because the Postal Service still faces substantial obligations related to postretirement health benefits for its current and former employees, some portion of the savings … should be used to address those unfunded obligations…." The Postal Service submitted two proposals pertaining to the use of "savings" for years after 2005. The first proposal assumes that the current legislation is amended and that the United States Treasury funds the CSRS costs associated with the military service of Postal Service employees and retirees. The second proposal assumes that responsibility for funding military service costs remains transferred to the Postal Service.

Returning the funding of CSRS costs of military service to the United States Treasury increases the "savings" under the Act, and makes available additional funds that can be used to pre-fund retiree health benefits for both CSRS and FERS employees. While the Postal Service believes the military service charge should be returned to the United States Treasury, it proposes that the resulting $10 billion in over-funding not be withdrawn, and that it remains in the Civil Service Retirement and Disability Fund in a separate account designated as the "Postal Service Retiree Health Benefit Fund." With this change, the Postal Service would be in a financial position to pre-fund retiree health benefits for employees and retirees.

Should the Postal Service not be relieved of the new responsibility for the funding of military service costs, the Postal Service proposes the use of "savings" or over-funding realized under the Act, in priority sequence, as follows: (1) to fund and pre-fund postretirement health care benefits; (2) to repay debt; and (3) to fund productivity and cost saving capital investments.

To address the larger retiree health benefit obligation, this proposal implements a solution for fully funding postretirement health benefits. This proposal pre-funds the current service cost of these benefits, beginning in

2006, for all new employees hired after 2002. These costs will be fully funded for all new hires dating from 2003, the effective date of Public Law 108–18. Additionally, this proposal provides a funding source for the annual cost of these benefits for all retirees, accomplishing a fully financed postretirement health benefit program.

The GAO's evaluation of these proposals was submitted to Congress on November 26, 2003. In accordance with the Act, Congress then has 180 days to revisit the issue of the escrow account.

Separately, the Postal Service has taken issue with the methodology OPM has used to calculate Postal Service CSRS obligations. One part of the analysis is a method to determine how much of the CSRS pension cost for employees who served both in the former Post Office Department and later in the Postal Service was attributable to their service time

before the creation of the Postal Service on July 1, 1971, for which the Goverment rather than the Postal Service remains responsible. The Postal Service believes that the OPM allocation methodology assigns an unreasonably high proportion of the burden of funding these benefits to the Postal Service. The Postal Service, in a letter dated July 22, 2003, requested OPM to reconsider its proposed methodology and consider an alternate allocation methodology proposed by the Postal Service. That proposed alternative allocation methodology was consistent with the approach previously used by OPM to allocate the increase in CSRS pension costs created by annual cost-of-living-adjustments (COLAs) granted to retirees. On July 31, 2003, OPM rejected this Postal Service proposal.

table 3-7 historical and present-year impact of congressional appropriations on mail revenue 1971,1976,1986, 2003

	Total Mail Revenue ($ million)	Mail Revenue Without Appropriations ($ million)	Appropriation Category	Income From Appropriation ($ million)	Appropriation as a Percent (%) of Total Mail Revenue
1971*	8,752	6,665	Deficiency in rates and fees, and Public Service	2,087	23.8
1976			Free and Reduced Rate Mail	725	
			Reconciliation for Prior Years	0	
			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
2003			Free Mail for the Blind and Overseas Voting Material	49	
			Reconciliation for Prior Years	(18)	
			Public Service	0	
	$68,529	$68,498		$31	0.1

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

**This figure does not include the appropriation for Post Office Department Transitional Costs.

Recognizing that both the OPM methodology and the Postal Service proposal based on OPM's methodology for allocating COLAs can be viewed as two extreme methodological approaches for allocating pension costs, the Postal Service subsequently submitted a new intermediate proposal. This formal proposal equitably allocates the CSRS pension costs for the pre-July 1, 1971, and post-June 30, 1971, between the Postal Service and the Post Office Department.

The Act entitles the Postal Service to request the Board of Actuaries of the Civil Service Retirement System to review and make adjustments to OPM computations. Such a request must be accompanied by a signed report prepared by professional actuaries. The filing of such an appeal remains under consideration.

D. Federal Government Appropriations

By law, the Postal Service normally is authorized to receive three types of appropriations from the federal government. These include appropriations for public service, transitional costs, and revenue forgone. Currently, appropriations are made for revenue forgone, and they accounted for less than 0.1 percent of total revenue in 2003. During 1971, the year preceding the creation of the Postal Service through the Postal Reorganization Act, these appropriations totaled almost 25 percent of total Postal Service revenue.

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

The transitional cost category of reimbursement provides a means to fund costs related to the former Post Office Department (POD) and shelters current ratepayers from such costs. Workers' compensation claims

arising prior to July 1, 1971, were the last known POD cost. In the Balanced Budget Reform Act of 1997, Congress transferred responsibility for these costs to the Postal Service. Therefore, the Postal Service has not received transitional cost appropriations since 1997.

In 2003, the Postal Service recognized a revenue forgone reimbursement of $31 million to fund free mail for the blind and for overseas voting. That reimbursement was paid shortly after the close of the year.

Additionally, in 2002, the Postal Service received three appropriations from the federal government to help fund costs related to homeland security and emergency preparedness. Those appropriations are discussed further in Section 3.E.

E. Emergency Preparedness Funding

In October 2001, numerous incidents of biological terrorism targeted U.S. senators and members of the national media. Other untargeted innocent persons were also affected by the attacks. Some individuals consequently died while others were made gravely or seriously ill. Because infectious biological agents were sent by mail in these attacks, the Postal Service was directly and severely affected. Two

table 3-8 application of Emergency Preparedness Plan (EPP) appropriation income as of September 30

Funding Received	Presidential Authorization ($ million)		Congressional Appropriation ($ million)	
	2002	**2003**	**2002**	**2003**
	175	0	587	0
Operating Expenses	16	0	0	42
Nonoperating Expenses	121	0	4	135
Capital Equipment	38	0	0	0
Balance at September 30	0	0	583*	406

*   Last year, the *Comprehensive Statement* reflected a balance of $545 million. However, $38 million was spent on irradiation equipment that did not meet the Postal Service's needs. With the approval of OMB, six of the eight machines valued at $17 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.

Postal Service employees died of anthrax infection. Mail services in some areas were curtailed; two mail processing facilities had to be closed for the long term because of anthrax contamination; and mail volume declined.

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 put in place new and enhanced technology applications and process changes that could enhance the safety of the mail system and reduce risks to both employees and customers.

Shortly after the initial bioterrorist attacks, the President of the United States authorized an initial funding of $175 million for 2002 to assist in paying for these safety measures. In November 2001, Congress appropriated an additional $500 million to "protect postal employees and postal customers from exposure to 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*, to be incurred by the Postal Service, to further protect Postal Service employees and customers from exposure to biohazardous material and to sanitize and screen the mail.

The Postal Service recorded the balance of $583 million as a current liability. The liability will be reduced as expenses are incurred and as an offset to depreciation expense over the life of the equipment.

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

F. *Breast Cancer Research* and *Heroes of 2001*

In 1997, Congress authorized the issuance of the first semipostal stamp for the specific purpose of raising funds from the American public to assist in finding a cure for breast cancer. The stamp was sold for 45 cents and is valid for the current cost of a one-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. In accordance with the law, the General Accounting Office has reviewed this program.

From program inception through the end of 2003, approximately 484.7 million *Breast Cancer Research* stamps have been sold. Five years of sales raised a net voluntary contribution of $34.5 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. Through the end of 2003, approximately $0.8 million has been withheld to cover these incremental costs.

The *Heroes of 2001* semipostal stamp, authorized by legislation enacted by Congress in 2001, provides assistance to the families of emergency relief personnel killed or permanently disabled in connection with the terrorist attacks of September 11, 2001. The stamp was issued in New York City on June 7, 2002, and sells for 45 cents. Like the *Breast Cancer Research* stamp, it is valid for

the current cost of a one-ounce single-piece First-Class Mail letter. It will be offered for sale through December 31, 2004.

Since inception, 105.2 million *Heroes of 2001* stamps have been sold. This has resulted in a contribution of $8.6 million to the Federal Emergency Management Agency, which is responsible for disbursing payments to eligible recipients. The Postal Service has recovered costs of $0.3 million.

chapter 3
financial highlights

A. Government Performance and Results Act Requirements

The Government Performance and Results Act requires government agencies, including the Postal Service, to establish goals and performance measurement systems, set improvement targets, and describe performance against those targets. When relevant, comments are provided on performance trends and explanations for changes in goals, objectives, measures, indicators, and targets are provided.

1. Improve Service

One of the strategic goals is to improve service. The annual performance objective is to provide timely, reliable delivery and universal access to postal customers. Performance measurement systems have been developed for major mail categories, and specific improvement targets have been established.

a. Objective, Measures, 2003 Target and Actual, 2004 Target, 2005 Preliminary Target

b. Comments

Service performance exceeded targets in every measured category.

c. Explanation of Changes to Goals, Objectives, Measures, Indicators, and Targets

Goals, objectives, measures, and indicators remain the same. 2004 targets were raised in recognition of current excellent performance levels.

Objective	Measures and Indicators	2003 Target and Actual Performance	2004 Target and 2005 Preliminary Target
Provide timely, reliable delivery service to a growing universal service network and convenient access to postal services for all customers.	Priority Mail Service (Surface) On Time Priority Mail Service (Air) On Time	Proprietary Information	Proprietary Information
	Express Mail Service On Time	Proprietary Information	Proprietary Information
	First-Class Mail Service Delivered On Time (EXFC) ■ Overnight ■ 2-Day ■ 3-Day	2003 Target ■ Overnight: 93 Percent ■ 2-Day: 87 Percent ■ 3-Day: 87 Percent 2003 Actual Performance ■ Overnight 94.8 Percent ■ 2-Day: 90.9 Percent ■ 3-Day: 89.7 Percent	2004 Target ■ Overnight: 94 Percent ■ 2-Day: 90 Percent ■ 3-Day: 88 Percent 2005 Preliminary Target ■ Maintain and Improve

2. Manage Costs

The second strategic goal is to manage costs. The annual objective is to improve productivity. A productivity measurement system has been developed, and specific improvement targets have been established.

a. Objective, Measures, 2003 Target and Actual, 2004 Target, 2005 Preliminary Target

b. Comments

Total Factor Productivity improved over same period last year (SPLY) and exceeded the plan of 0.7 percent. The 1.8 percent performance is equivalent to approximately $1.2 billion in savings.

c. Explanation of Changes to Goals, Objectives, Measures, Indicators, and Targets

No change to goals, objectives, or measures.

Objective	Measures and Indicators	2003 Target and Actual Performance	2004 Target and 2005 Preliminary Target
Manage costs and improve productivity to maintain fair and equitable prices for all customers.	Total Factor Productivity (TFP)	2003 Target ■ 0.7 Percent 2003 Actual ■ 1.8 Percent	2004 Target ■ 0.4 Percent 2005 Preliminary ■ Better Than or Equal to Plan

4. Generate Revenue

The fourth major strategic goal is to generate revenue to sustain the postal operating network and improve service. The annual objective is to enhance core services and provide greater value to customers. The measure is to achieve the revenue plan, and an annual target has been set.

a. Objective, Measures, 2003 Target and Actual, 2004 Target, 2005 Preliminary Target

c. Explanation of Changes to Goals, Objectives, Measures, Indicators, and Targets

No change to goals, objectives, or measures.

B. Strategies

The specific strategies are outlined in Chapter 2 and 3 of the *Comprehensive Statement on Postal Operations*, and in the *Five-Year Strategic Plan, 2004–2008*.

Objective	Measures and Indicators	2003 Target and Actual Performance	2004 Target and 2005 Preliminary Target
Enhance core services and provide greater value to customers.	Achieve Revenue Plan (Integrated Financial Plan)	2003 Target ■ $70.4 billion 2003 Actual ■ $68.5 billion	2004 Target ■ $68.9 billion 2005 Preliminary ■ Better Than or Equal to Plan

b. Comments

Revenues grew an estimated $2.1 billion in 2003 over the previous year. The planned growth was $3.7 billion. This revenue growth was entirely the result of rate increases that went into effect in late 2002. Revenues would have declined for the second straight year, if it were not for the rate increases implemented on June 30, 2002. Volume growth in 2003 was forecasted to be adversely affected by competitive forces and the carryover impact of rate increases implemented on June 30, 2002.

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10 a.m. . . . Tuesday . . . there she is . . . my letter carrier . . . smiling . . . delivering my mail . . . in a city of millions, she finds me . . . every day . . . now that's magic!

2003 comprehensive statement on postal operations

UNITED STATES POSTAL SERVICE