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for you

UNITED STATES POSTAL SERVICE®

*2004 comprehensive statement
on postal operations*

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YEAR REFERENCES

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

Automated Postal Centers make shipping convenient for me.

I'm always in a hurry. Glad I heard about these Automated Postal Centers. They work on my schedule . . . for just about anything I need from the Post Office.

Introduction

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

Unlike the annual report of the Postal Service, which has been published since 1789 and which focuses primarily on Postal Service finances, the comprehensive statement provides a summary of the initiatives, accomplishments, and challenges faced by the Postal Service in the previous year. The comprehensive statements published since 1976 provide succinct summaries that show how the Postal Service has changed over time, what policy decisions directed that change, and what influenced those policy decisions.

The format of comprehensive statements has remained consistent since the first publication in 1976. Chapter One deals with statutory requirements and details how the Postal Service met those requirements for the year addressed. Chapter Two reviews operational changes, including automation and technological improvements, and explains current products and services. Chapter Three provides an overview of Postal Service finances for the preceding year, and Chapter Four is devoted to performance for the preceding year and the performance plan for the following year.

The *2004 Comprehensive Statement on Postal Operations* is available in hard copy and can be found on the Internet at *http://www.usps.com/financials/ cspo/welcome.htm.* For policymakers, stakeholders, and members of the general public interested in the

Postal Service the *2004 Comprehensive Statement* provides extensive and detailed information about what the Postal Service accomplished in 2004.

A. Fundamental Service to the People

1. General

The ongoing focus of the Postal Service on the overarching strategies identified in the April 2002 *Transformation Plan* contributed to its ability in 2004 to continue to serve a growing delivery network, while achieving record levels of service performance and customer satisfaction. At the same time aggressive cost management, complemented by the reduction in payments to the Civil Service Retirement System resulting from 2003 legislation, contributed to the 2004 net income of $3.1 billion.

Independently measured on-time, overnight, First-Class Mail delivery performance held steady at a record 95 percent and reached 96 percent during postal quarter III. Service in other measured categories continued to meet or exceed record levels, even as the delivery network grew by approximately 1.8 million new addresses each year. Customer satisfaction, also independently measured, reached an all-time high of 94 percent.

The Postal Service reduced its debt from $7.3 billion at the close of 2003 to $1.8 billion at the close of this year. This represents a third straight year of debt reduction and continues to reflect the positive effects of Civil Service Retirement legislation in 2003.

Career employment was reduced through attrition by 21,000 positions, bringing career staffing down to 707,485, the lowest level since 1993. This contributed to an unprecedented fifth consecutive year of growth in total factor productivity.

Significant progress was made in achieving the *Transformation Plan* goal of enhancing a performance-based culture with the implementation of a pay-for-performance system for all executives, managers, supervisors, and postmasters. Compensation for these groups is directly tied to the achievement of well-defined corporate and individual goals.

chapter 1
compliance with statutory policies

Workplace improvements continued, with a 13.7 percent rate reduction in Occupational Safety and Health Administration injury and illness rate. Career employees responded in record numbers to a quarterly workplace environment survey — Voice of the Employee (VOE) — and provided the most positive survey index yet recorded.

Comprehensive postal reform bills were reported out of full committees both in the Senate and the House of Representatives. Despite widespread stakeholder interest and support for many of the bills' provisions – particularly those involving an escrow requirement to begin in 2006 and transfer of a $27 billion military retiree obligation from the Treasury to the Postal Service – no final action was taken on either bill during the closing session of the 108th Congress.

Progress has been made toward recovery from the 2001 terrorist and anthrax attacks. The Curseen-Morris Processing and Distribution Center in Washington, D.C., was reopened in December 2003 after being fully sanitized and renovated. Similar decontamination of the Trenton, NJ, Processing and Distribution Center took place in October 2003, with reopening scheduled for spring 2005. New York City's Church Street Station, heavily damaged during the terrorist attacks of 9/11, was reopened in July 2004 following extensive repairs and renovation.

The safety of Postal Service employees and customers continues to be a major focus. State-of-the-art Biohazard Detection Systems have been deployed to 38 major mail processing facilities throughout the nation. The systems sample mail and provide employees and local first responders with an early alert if anthrax is detected. A total of 283 key mail processing facilities will have this equipment when deployment is completed in 2005.

New product and service initiatives continued to add value to the mail and make it quicker, easier and more convenient for customers to do business with the Postal Service.

New capabilities expanded the utility of *www.usps.com*, the Post Office that is as near as a home or office computer. Carrier Pickup Online Notification Service enables customers to use *www.usps.com* to request pickup of their postage-paid Express Mail or Priority Mail package along with any other prepaid items by their carrier on the next day's delivery rounds at no extra charge.

Click-N-Ship, available on *www.usps.com*, has added online insurance as an option when printing prepaid package labels. The introduction of electronic return receipt service also adds convenience, improved reliability, and speed to this valuable feature.

Postal Service shipping solutions are also available through the eBay and PayPal Web sites, where users can purchase postage and print Postal Service shipping labels directly from their computers and pay postage via their PayPal account. Both the buyer and seller can track the delivery status of their package online.

About 2,500 Automated Postal Center units have been introduced at Post Office locations throughout the nation. These award-winning kiosks offer customers a wide range of postal retail services, without the need to stand in line and, in many locations, are open around the clock.

Small, mid-size, and large businesses all had the opportunity to learn about the latest in mailing technology and hear from Postal Service and industry experts at two major mailer events. The annual National Postal Forum, the industry's premier trade show and conference, drew more than 6,000 attendees in Washington, D.C., in September. This followed May's successful National Postal Customer Council Day (PCC) in Boxborough, MA, where representatives of almost 200 community-based councils heard, firsthand, of the Postal Service's commitment to revitalize the PCC network to benefit both member businesses and the Postal Service. The Postmaster General's speech was telecast across the country on National Postal Customer Council Day.

In carrying out its mission as a fundamental service to the people of America, the Postal Service will continue to pursue *Transformation Plan* strategies to promote the value and affordability of the mail.

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 gover-

nors, together with the Postmaster General, appoint the Deputy Postmaster General (39 USC 202).

The board meets regularly on a schedule established annually by the board. The chairman and vice chairman are elected at the annual meeting in January.

The Board of Governors 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 United States Code (USC). Except for those powers specifically vested in the governors, the board may delegate the authority vested in it by statute to the Postmaster General under such terms, conditions, and limitations, including the power of re-delegation, as it deems desirable (39 USC 402). The governors are authorized to establish reasonable and equitable classes of mail and reasonable and equitable rates of postage and fees for Postal Services (39 USC 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 PRC on postal rate and mail classification changes (39 USC 3625).

The Board of Governors held regularly scheduled meetings, generally, each month. Each regularly scheduled meeting consisted of two sessions. 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 11 regularly scheduled meetings covering 17 days in 2004. Six of these meetings were held in Washington, D.C. The other five meetings were held in Wilmington, DE; Ft. Lauderdale, FL; Dallas, TX; San Francisco, CA, and Boston, MA.

The board has three standing committees: Audit and Finance, Capital Projects, and Strategic Planning. The committees held meetings during the year to consider matters within their areas of responsibility and refer items to the full Board of Governors for consideration. In October 2003 the board approved the 2004 budget for the Office of the Inspector General and the 2004 budget for the Office of the Governors.

In November 2003 the board approved funding for a new accounts payable system, 120 automatic flats tray lidding systems, and 2,014 cargo vans.

In December 2003 the board approved the audited 2003 financial statements, the *2003 Annual Report* and the 2005 appropriations request to Congress.

In January 2004 the board re-elected S. David Fineman as chairman of the board and John F. Walsh as vice chairman. At the same meeting the board approved the annual report on Government in the Sunshine Act Compliance, a resolution on capital funding, and the *2003 Comprehensive Statement on Postal Operations*.

In February 2004 the board approved a filing with the PRC related to small publications. The board also approved the following capital investment projects: Optical Character Reader Enhancements; New York, NY, Church Street Station and Federal Office Building Phase III Development Project; Kansas City, MO, Main Post Office and Mid-America District Office; and Santa Monica, CA, Carrier Annex.

In March 2004 the board approved funding for Labor Scheduler, Phase I Modification.

In April 2004 the board approved executive compensation.

In May 2004 the board approved filing with the PRC an experimental Priority Mail Flat-Rate Box case. The board also approved filing two Negotiated Service Agreements (NSA) with the PRC. The board approved an updated charter for the Audit and Finance Committee and the following capital investments: Mail Processing Infrastructure Phase II; Human Capital Enterprise/Human Resources Shared Service; Transaction Concentrator Replacement; Pittsburgh, PA, Logistics and Distribution Center; and Trenton, NJ, Processing and Distribution Center Facility Restoration.

In June 2004 the board approved a filing with the PRC for a market test of Repositionable Notes. The board approved a change to its bylaws and the following capital investment projects: Arlington, VA, Main Post Office; Chicago, IL, Busse Surface Hub; Surface Visibility — Surface-Air Support Modules, Phase III; 1,587 Additional Delivery Bar Code Sorter (DBCS) Stacker Modules; and Airline Receiving Concourse and Trayline System — New York International Service Center.

In July 2004 the board adopted a resolution noting the untimely death of Governor Albert Casey and recognizing his outstanding service to the nation. The governors approved the PRC opinion and recommended decision relating to periodical publications and the board set an implementation date. The board approved an implementation date for Return Receipt (Electronic) and approved the following capital investments: Springfield, MA, Logistics and Distribution Center; and Pontiac, MI, Northeast Metro Processing and Distribution Center.

In September 2004 the governors approved the 2005 budget for the office of the inspector general. The governors approved the 2005 budget for the PRC and the board approved three amendments to their bylaws. The board approved the *2005 Annual Performance Plan* in compliance with the Government Performance and Results Act (GPRA) of 1993. The board approved the Postal Service 2005 operating and capital investment plans. The board approved the preliminary 2006 appropriations request. The board also approved the following capital investment projects: Automatic Induction Systems for 210 Automated Flats Sorting Machine 100s, Integrated Dispatch and Receipt, and Cargo Vans Modification.

3. Strategic Planning

The Office of Strategic Planning (OSP) supports the Postmaster General, the Executive Committee, and the Board of Governors in managing the strategic planning process.

An annual process establishes the goals, objectives, indicators, and measures for the organization and sets annual performance targets in compliance with the requirements of GPRA. The OSP publishes the annual performance plan, the annual performance report included in that document, and the five-year strategic plan.

The strategic planning cycle includes deploying performance targets throughout the organization, determining accountability for performance, allocating resources, developing and implementing programs designed to achieve the targets, and reviewing performance.

OSP develops an annual assessment of the business environment and uses planning tools such as scenarios to discuss the implications of trends for the Postal Service. The office also assists functional planners in developing their plans and ensuring alignment with the overall strategic goals of the Postal Service.

Since April 2002 when the Postal Service delivered its *Transformation Plan* to Congress, three major initiatives — Growth Through Customer Value, Increase Operational Efficiency, and Move Toward a Performance-Based Culture — and their Enabling Strategies — have served as a blueprint for every aspect of Postal Service business and significantly reduced its debt. In their regular reviews of transformation strategies the Postmaster General and the Executive Committee align transformation goals and objectives with the budget, the *Annual Performance Plan*, and *The Five-Year Strategic Plan, FY2004–2008.*

The OSP solicits, integrates, and evaluates potential new initiatives for the Postal Service. Relevant initiatives are referred to functional departments for further development and review. It also assists senior management and functional departments in the evaluation and management of critical partnerships and alliances with the private sector.

B. The Workforce

1. Opportunity

a. Attracting the Right Applicants for the Right Jobs

A large-scale validation research study was conducted in 2004 to review and update entry-level selection methods. This study provided data needed to support changes to the entry-level test battery. Job analyses identified capabilities that are critical to job success in today's increasingly competitive environment. New testing procedures were developed measuring the knowledge, skills, and abilities required for successful performance in entry-level positions, including: city carrier; mail handler; mail processing clerk; sales and services associate; and sales, services, and

Table 1-1 Management Annual Planning Cycle

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

distribution associate. Research was conducted to evaluate the validity of data distinguishing between job performances in these specific positions, and a final battery of tests was selected. The new test battery will be implemented in 2005, and resulting registers will replace the current registers.

b. Talent Acquisition Processing System

The Talent Acquisition Processing System (TAPS) was implemented in July 2004. TAPS was created to provide the Postal Service with a tool to facilitate the employment examination process used nationwide for hiring and promoting career employees. TAPS is responsible for maintaining the integrity of the Postal Service's testing process. The objective of TAPS is to support the dissemination, collection, storage, and inventories of all test materials and test results.

TAPS replaced the Postal Application and Scheduling System (PASS). TAPS integrated the processing of all examinations into a single operating system that complies with application and security requirements under the Postal Advanced Computing Environment (ACE).

The National Test Administration Center system was migrated to the Eagan, MN, Data Center and complies with all Information Technology (IT) standards. IT now provides all application, database, diagnostics, system performance metrics, change management, and help desk support from Eagan.

c. Employment Opportunity Enhancements

During 2004 the Postal Service implemented a new Web-based application (eReassign) that allows career bargaining-unit employees to submit requests for voluntary reassignments from one postal installation to another. eReassign has standardized the reassignment process, reduced processing cycle-time, and virtually eliminated manual processing. This new application not only makes the submission of reassignment requests easier for employees, it also allows them to track the status of their requests and to apply for "hard-to-fill" positions nationwide. It provides a central repository for data and reassignment opportunities, automates the data gathering of applicant information, and has report generation capabilities. This is also the first self-service type of employee application that can be accessed outside the Postal Service's intranet.

Since implementation, more than 56,000 reassignment requests from 28,434 employees have been submitted through eReassign. From this number, more than 3,588 career bargaining unit employees have been successfully transferred.

During 2004 the Postal Service continued efforts to highlight the importance of careful, complete suitability screening of employee applicants and to assist field offices in pre-employment screening efforts. The process for obtaining records had varied by location, with most offices manually requesting local records. Early in 2004 the Postal Service piloted the electronic collection of criminal and motor vehicle records through a vendor's secure Web site. Turnaround time was reduced, accuracy was ensured, and compliance with screening requirements was improved. National deployment is currently underway.

An Interview Toolkit was developed and distributed to field offices as a quick reference guide for persons who conduct pre-employment interviews for entry level positions. The toolkit supplemented previously released materials to ensure that applications are evaluated thoroughly, resulting in consistent, sound, appropriate, and lawful employment decisions.

During 2004 the Postal Service expanded the newly developed Maintenance Skills Development Program (MSDP), designed to provide basic technical skills training to career employees with the aptitude and interest in pursuing a skilled maintenance career path. Qualifying test scores determine eligibility for participation in the training program. MSDP combines distance learning and hands-on training to build knowledge, skills, and abilities which enable graduates to successfully apply for the target positions under the Maintenance Selection System procedures.

d. Technical and Craft Education

The National Center for Employee Development (NCED) through their training offerings supported Postal Service efforts to manage and maintain postal systems at peak operating efficiency, build a new mail processing infrastructure, deploy the Postal Automated Redirection System (PARS), and provide skills training to develop employees for critical maintenance vacancies.

In all, NCED offered 270 courses in 2,285 course offerings to 67,300 persons, up four percent from 2003. NCED satellite and audio distance learning networks again delivered Postal Service training and information broadcasts. Over 265 offerings of 30 distance-learning courses reached 300,700 individuals in their home offices, providing 443,700 training hours.

Curricula supported core business and employee education on management and maintenance of automation systems, customer service equipment, facilities, and vehicles. Other programs taught business mail management, information technology, network

supervision, safety and environmental compliance, and administrative topics.

For the fourth straight year NCED revenues exceeded expenses. Over $2.2 million came from non-postal conferences and training clients such as business mailers.

e. Management Training

The Executive Development Program (EDP) is a comprehensive leadership development experience. Its first component, EDP I, is a standardized foundation experience, *Leading People Through Transformation.* The second component, EDP II, *Connected Leadership*, connects executives to key stakeholders and opens paths to cross-functional networking and collaboration with an emphasis on action learning (working on real postal business problems as a practice field for learning). The Executive Development Program was launched in February 2003, and, since then, over 600 Postal Career Executive Service (PCES) managers have completed the first component.

A new program for training human resource (HR) managers was developed and piloted for national roll-out. This course addresses the strategic role HR managers must play in developing people and meeting the aggressive performance goals of the company. A new developmental program for Headquarters secretaries was also piloted this year.

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

Postal Service supervisors, managers, and executives each received at least 20 hours of training and bargaining unit employees each received at least 8 hours of training in 2004. Safety continued to be a prime training target in 2004. Safety training now uses a standard online source of information to combine just-in-time content with formal online and classroom instruction. Specialized training assisted management and bargaining unit employees in transitioning back to facilities closed due to anthrax contamination.

f. Training and Technology

The Postal Service has started to provide eLearning to its employees. eLearning was initially used at Headquarters, Headquarters-related offices, the Eastern Area office, and the Pittsburgh District office to provide thousands of courses through the computer. Nationwide access to eLearning content is now available.

The Postal Service's contract with the Targeted Learning Corporation will provide training to all levels of employees at their offices. These courses cover leadership, diversity, safety, customer service, and other general business content. Enrollment for 2004 totaled 235,780.

g. Intern Programs

By May 2004 all of the initial 22 Management Interns hired in June 2002 completed the full 24-month Management Intern Program. Each of these was outplaced into mid-level field operations positions. In the 2004 Management Intern recruitment process 1,780 Postal Service and non-Postal Service candidates applied to the program. Currently, 67 interns are in various stages of the program. The Professional Specialist Intern (PSI) Program also recruited for additional positions in 2004. There are currently 15 PSIs in various stages of development, working in the Postal Service. These programs are ongoing.

The Professional Specialist Trainee/Industrial Engineer (PSTIE) training program is ongoing. Industrial Engineer trainees hired in 2003 have either completed the program or are in the final stage of the program. There are currently 64 PSTIEs in various stages of development. This effort exposes engineers to every facet of postal operations, making them better prepared to position the Postal Service relative to the hardware, software, and human resources needed to maximize the efficiency of the processing, distribution, and delivery of mail.

h. William F. Bolger Center for Leadership Development

Effective February 2004, the Center for Leadership Development hired a new supplier to manage the maintenance and operation of the center's facilities. The new contract supports the Bolger Center's 20-year commitment to provide a premiere training and development facility. The center, which can be used by non-Postal Service customers, generated almost $6.7 million in revenue in 2004 from non-Postal Service customers. Approximately 38,166 persons used the center, including 21,504 Postal Service employees. The number of postal users is expected to increase as the Bolger Center expands its offering of postal training programs.

The Bolger Center Media Unit produced 28 Postal Service Television Network (PSTN) broadcasts, airing more than 40 hours of programming aimed at postal managers in Address Management, Sales, Marketing, Business Mail Acceptance, and Employee Resource Management. The Media Unit also partnered with USPS-TV to broadcast a bi-monthly *COO Update.* This series provides a corporate perspective for postal managers by presenting up-to-the-minute service, financial, and business information as well as interviews with customers and postal executives. The Media Unit expanded this partnership with USPS-TV to produce the Chief Marketing Officer's program, titled *MarketPlace.* The unit also produced 35 video productions, six of which won prestigious Videographer, Telly and Communicator awards for production excellence.

i. Succession Planning

Corporate Succession Planning is an automated process to identify, develop, and maintain a pool of well-prepared potential successors.

2004 marks the first time that succession planning has been automated, from application submissions to successor selection, to monitoring Individual Development Plan activities. In total 1,417 employees were identified as potential successors to the approximately 800 executive positions. More than 29 percent of successors are minorities, an increase of nearly 16 percent above the former program.

j. Postal Career Executive Service

There were approximately 800 individuals in the Postal Career Executive Service (PCES) ranks at the close of 2004. There were 41 PCES-II officers in the Postal Service at the end of the year. During 2004 the New Executive Orientation training program was launched for all new PCES. This program trained 65 new PCES to incorporate the Postal Service's strategic direction, to integrate cross-functional information, and to establish a support network.

2. Diversity

a. General

Diversity Development plays a major role in helping the Postal Service face the challenge of continuing to grow the business and of developing new technology while rapid changes in demographics, attitudes, and economics reshape society. In 2004 *Fortune* magazine ranked the Postal Service number 6 in their annual analysis of the "50 Best Companies for Minorities."

The Postal Service will continue to focus on three principal strategies: investing in the workforce, strengthening succession planning, and building the business through the following initiatives:

■ Ensure that there is representation of all groups at all levels.

■ Achieve a harassment and discrimination free environment.

■ Enhance workforce management.

■ Strengthen customer and community relations.

b. National Diversity Recognition Program

Since 1996, the Postal Service National Awards Program for Diversity Achievement has recognized the outstanding achievements of individuals and teams that have encouraged and promoted diversity within the organization. Awards are given across five categories: Individual, Leadership, Team, Altruism, and the Dot Sharpe Lifetime Achievement Award. The newest award introduced in 2004, the Altruism award, provides an opportunity to honor and recognize the diversity achievements of employees outside the work environment. The 2004 program presented 25 awards, selected from among 512 nominations covering more than 900 employees.

c. Employment of Individuals with Disabilities

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 2004 the Postal Service employed 43,223 career employees having disabilities, of which 6,379 had targeted severe disabilities.

In 2004 Equal Opportunity Publications Inc. ranked the Postal Service as one of the top 20 government agencies for individuals with disabilities, and the Postal Service received the outstanding employer award from *Careers and the Disabled* magazine.

Video Relay Service (VRS) and Video Remote Interpreting Service (VRIS) are in pilot testing. These initiatives will improve communications between deaf

and hard-of-hearing employees and their supervisors and coworkers. National launch is planned for 2005.

d. Veterans' Employment

The Postal Service is one of the nation's largest employers of veterans and disabled veterans. In 2004 the Postal Service employed some 197,300 veterans. Of this group 66,220 received injuries while in uniform and, of that number, 17,103 were rated at 30 percent or more disabled.

e. Affirmative Employment Program

The Affirmative Employment Program (AEP) provides national guidance and administers the Affirmative Employment Plan of the Postal Service. In 2004 the Equal Employment Opportunity Commission (EEOC) issued Management Directive 715, which provided guidance and standards to federal agencies for establishing and maintaining effective affirmative programs of equal employment opportunity. A cross-functional team is defining and providing guidance to Headquarters and field units on the implementation of the new directive and the annual reporting requirement to the EEOC.

The Postal Service also accomplished the following AEP initiatives:

Each area office was provided with an integrated framework which emphasizes identifying and removing barriers and providing technical guidance to improve the AEP planning process to standardize the field specialist duties and responsibilities.

A Web-based software application was deployed for the creation and management of AEP plan reports. It provides a broad range of workforce analysis, plan generation, and plan management capabilities, reducing the time required to produce the annual reports to the EEOC by 70 percent.

1. Hispanic Program

Since the early 1970s, the Postal Service's Hispanic Program (HP) has developed programs to address the demands of the growing Hispanic community and its employees. In 2004 the HP: (1) provided guidance and direction to field Diversity Professionals; (2) facilitated the exchange of best practices through publications, training, and teleconferences; (3) developed national guidelines of the HP Specialist activities; (4) participated in national events; (5) identified in-language material requirements that helped manage relationships with Postal customers; and (6) provided services to communities with diverse needs.

2. National Women's Program

Since 1974, the Postal Service's National Women's Program (NWP) has provided workforce analyses, affirmative employment plan activities, and resources to ensure the full utilization of women in all aspects of employment, including hiring, retention, training, career development, and promotions.

Major accomplishments in 2004 included area diversity network teleconferences to strengthen NWP communications and share best practices, a Special Emphasis Programs education component with the new diversity professional training, and a NWP communications plan for diversity professionals to provide technical guidance on women's issues.

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 disabled veterans. The Special Emphasis Program developed a multi-year strategic plan and conducted employee conferences for the White House Initiative on Asian Americans and Pacific Islanders (Executive Order 13216). It also partnered with other agencies and the American Indian Council, a part of the Federal Executive Board, in outreach activities with American Indians.

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 $60,261 per year, excluding corporate-wide expenses which can not be attributed to individual employees.

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

2. Nonbargaining Unit Employees' Pay and Benefits

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

In 2004 there were several changes to nonbargaining unit employees' pay policy, including pay administration for new hires, promotions, and other actions. Also, a pay-for-performance plan, similar to the PCES model, was implemented for nonbargaining unit employees to support the Postal Service's goal of establishing a performance-based culture.

The salary structure continues the pay reform strategy outlined in the *Transformation Plan* and reflects the general criteria 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.

4. Performance Evaluation System

The Postal Service has expanded its ability to improve accountability through greater use of performance-based pay to recognize individual and team efforts. In 2003 approximately 800 executives participated in a new pay-for-performance program based on a National Performance Assessment system and evaluations of core requirements of positions. In 2004 as a result of successful consultations with the three postal management associations, 78,000 additional nonbargaining employees were placed under the same evaluation system and are participating in pay-for-performance.

An intranet-based Web tool manages the employee's evaluation life cycle using automated workflow. An objective-setting process that includes the approval of individual objectives allows employees to align individual contributions to unit and corporate goals. The system documents evaluators' feedback at the mid-year performance review and end-of-year evaluation. This reinforces the Postal Service's commitment to providing specific and tangible feedback on individual performance toward established targets. The new system also calculates end-of-year performance ratings based on individual achievements against targets, as well as unit and corporate results.

5. Retirement Systems

The Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS) exceed the private sector comparability standard, but are required benefits under the Postal Reorganization Act. Reasons why these plans exceed private sector levels

include full benefits being available as early as age 55 and full or nearly full indexing to inflation.

6. Fair Labor Standards Act (FLSA)

In 2004 the Postal Service conducted a comprehensive review of the overtime status of all its exempt personnel under the guidelines of the Fair Labor Standards Act. New regulations issued by the Department of Labor (DOL) required that a review be conducted of over 4000 position descriptions. As a result of this comprehensive review, the Postal Service has determined it is in full compliance with the new regulations.

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 10.36 days of sick leave per career employee during 2004.

Earned annual leave may be donated to other career or transitional Postal Service employees who have exhausted their own leave due to serious health conditions. Postal employees donated more than 148,000 hours of annual leave in 2004 to other postal 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.

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

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 22,900 bargaining and nonbargaining employees who participated in the 2004 leave exchange program.

c. Health Insurance

During 2004 health care contributions, including Medicare taxes for current employees totaled $4.8 bil-

lion, 9.3 percent of the Postal Service's total pay and benefits during 2004.

The Postal Service continued to pay most of the premium cost of employee health benefit coverage. When career employees enroll in approved plans, their share of health benefit premium contributions are automatically made with pretax payroll deductions.

Under the Omnibus Budget Reconciliation Act of 1990, the Postal Service is required to fund a share of the annuitants' Federal Employee Health Benefit premiums. The cost of funding health care benefits for postal annuitants and their survivors in 2004 was $1.3 billion.

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 2004 Postal Service costs for employee life insurance were $191.9 million, and the cost of funding life insurance for postal annuitants and their survivors was $9.5 million.

e. Retirement Systems

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

At the end of 2004 there were 707,485 career postal employees covered by federal retirement programs. Of this total, 509,577 employees (72 percent) were covered by the Federal Employees' Retirement System (FERS); 188,670 employees (26.7 percent) were covered by the Civil Service Retirement System (CSRS), and 9,238 employees (1.3 percent) were covered by CSRS Offset.

Postal Service career employees make retirement contributions to the Civil Service Retirement and Disability Fund. In 2004 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. At the end of 2004, 413,286 FERS employees and 115,358 CSRS and CSRS Offset employees participated in the TSP. In addition, during 2004, the Postal Service administered the TSP Catch-Up provision for eligible TSP participants age 50 and older. This program allowed an additional $3,000 of pre-tax basic pay to be contributed to the TSP. In 2004 there were 12,279 FERS employees and 11,580 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 2004, 72,117 employees were enrolled in health care FSAs (a 19.1 percent increase from 2003), with an average annual contribution of $1,665. At the end of 2004, 5,454 employees were enrolled in dependent care FSAs (an 11.4 percent increase from 2003), with an average annual contribution of $2,487. 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 qualified, professional-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., suicide, hurricane, armed robbery, and accidental death). In 2004, more than 57,600 employees and their family members received counseling and consultation from the EAP. Of those employees 30.6 percent reported some type of work

problem that affected their work performance. EAP staff responded to 286 critical incidents and provided assistance to more than 11,400 employees after these incidents. Health and wellness seminars/training opportunities on topics ranging from stress management to elder care to substance abuse were provided to more than 238,000 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. Key components for 2004 and 2005 are: coordination and implementation of the Postal Service's *Transformation Plan* strategy to build a highly effective and motivated workforce; development of the role of the workplace improvement 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; and communication of progress in improving the workplace environment.

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 of issues at 6 sites in 2004. 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.

c. National Sexual Harassment Prevention

The Postal Service is committed to providing a work environment free of sexual harassment and inappropriate sexual conduct, through training, posters, publications, videos, service talks, and print articles.

In 2004 a revised Publication 553, *Employee's Guide to Understanding Sexual Harassment*, was mailed to the homes of more than 700,000 employees. A 15-minute training service talk on sexual and workplace harassment prevention training was made available on the Diversity page of the corporate intranet. Employees received payroll check stuffers on an inappropriate sexual conduct awareness campaign entitled *Misconduct of a Sexual Nature – It's Just Plain Wrong* and *Harassing Behavior – It's Just Plain Wrong*. Four sexual harassment training videos were also broadcast on PSTN.

d. Dependent Care

The Postal Service and the American Postal Workers Union (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 offering a variety of options to help balance work and home life.

e. VOE Survey

Every postal quarter, one-fourth of the career employee population receives the Postal Service's Voice of the Employee (VOE) survey at their work locations. Participation is voluntary and employees are given time "on-the-clock" to complete the surveys and seal them in postage-paid envelopes which are mailed to the contractor for data analysis and quarterly reporting.

Six questions have been identified as key indicators of workplace environment factors that can have an impact on employee performance and thus affect business outcomes. In 2004, the Postal Service achieved its highest historic national response rate and survey index score. The national response rate was 64 percent, and the national index score was 62.1 percent favorable responses, 1.0 percentage point over the same period last year (SPLY). Analyzing survey results helps identify organizational issues in order to plan improvement strategies.

f. Combined Federal Campaign

The Postal Service joins other federal agencies in the Combined Federal Campaign drive each fall. In calendar year 2004 Postal Service employees nationwide pledged a total of $38,055,748 in payroll deductions to the charities of their choice.

g. Safety

In 2004 the Postal Service continued to experience significant improvement in its safety program. Accident reduction plans targeted the most serious

and prevalent accident causes. The Postal Service issued guidance and direction to employees on a wide variety of safety and health issues. Through mandatory safety talks, videos, and publications, employees were apprised of how to avoid injuries and illness. The *Safety Depends on Me* video campaign, part of the Postal Service's overall employee safety and health communication program, provides employees with safety and health information.

The Occupational Safety and Health Administration (OSHA) injury and illness frequency rate for the Postal Service is 6.3 per 100 employees. This is down 11.3 percent from last year and equates to 8,637 fewer OSHA injuries and illnesses. In the past three years the Postal Service has reduced the total number of OSHA injuries and illnesses by 25,407, a 36 percent reduction.

The Postal Service motor vehicle accident frequency rate is 10.41 per million miles. Despite significantly worse weather, this is down 2.9 percent from last year and equates to 252 fewer motor vehicle accidents. In the past three years the Postal Service has reduced its total number of motor vehicle accidents by 2,938, an 11 percent reduction.

The postal Safety and Health Program continued involvement with emergency preparedness improvements, as well as with safety requirements mandated by the Department of Homeland Security (DHS).

h. Voluntary Protection Program

The Postal Service continued to partner with OSHA to implement its prestigious Voluntary Protection Program (VPP) in postal facilities. OSHA awards this exclusive recognition only to those facilities that have implemented the best safety and health programs in industry. A key benefit of this program is improved employee relations that result from the cooperative involvement of management, OSHA, and the unions working together in its implementation.

To date the Postal Service has 18 worksites approved in the program, 29 sites in process, and 71 interested. A goal of 85 sites has been established for 2005.

The VPP process is being implemented through the national, area, and local Joint Labor-Management Safety Committees. The decision to enter into the VPP process is a joint decision made between the unions and the Postal Service at the local level.

i. Ergonomic Risk Reduction Process

The Ergonomic Risk Reduction Process (ERRP), supported by the Ergonomic Strategic Partnership pro-cess is designed to accomplish the following goals at participating Postal Service worksites:

- Improve the safety and health environment so that OSHA, the Postal Service, National Postal Mail Handlers Union (NPMHU), and APWU can work together to reduce musculoskeletal disorders (MSDs) by identifying tasks and conditions where MSD incidents can occur and develop and implement ergonomic control processes.

- Provide training on ERRP to employees.

- Reduce the number of days away from work for both lost workday and restricted duty cases and share best practices.

The process was implemented in 53 sites in 2003 and 2004. It will be implemented in 32 sites in 2005, 40 sites in 2006, 40 sites in 2007, and 11 sites in 2008.

At the end of 2004 the Postal Service trained more than 40,073 employees at 53 sites. Of the total, approximately 5,000 were managers. The rest were from the clerk, mail handler, maintenance, and vehicle services areas.

Also in 2004, 1,650 task analyses were conducted in order to identify opportunities. Consequently, 596 fixes and 293 quick-fixes (completed within five days, from task analysis to completion) were implemented locally at little or no cost.

The Customer Service ERRP Pilot was successfully implemented in Albany, NY. The goal of the pilot has been to develop a viable process for customer service similar to the programs developed in plants.

j. Injury Compensation

In 2004 the Postal Service had an increase in workers' compensation chargeback from Department of Labor's Office of Workers' Compensation Programs (OWCP) of approximately $5.3 million (less than one percent) above 2003 for a total cash payout of $897.4 million compared to $892.1 million in 2003. This total includes all Postal Service, Post Office Department, and administrative costs for the chargeback year.

The Postal Service continues to work closely with the OWCP to place injured employees who cannot be accommodated within the Postal Service into private sector assignments. In 2004 the program resulted in either the outplacement, retirement, or reduction in compensation payments for 188 employees.

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. From inception in April 2001 through August 2004, the program has returned more than $2.3 million to the Postal Service and avoided more than $75 million in medical costs.

A significant credit recovery effort doubled the total recoveries attained in 2004 to $43.3 million compared with last year's total of $19 million.

k. Workers' Compensation Fraud

Once postal inspectors identify fraud in the Workers' Compensation Program, they then seek a resolution. The solution may be an arrest, job removal, a long-term job suspension, or a reduction or discontinuance of an employee's compensation benefits (on approval from the Department of Labor). Postal inspectors also search for and identify fraud during the period that claimants are receiving continuation-of-pay (COP) benefits and before the claimants enter the periodic rolls.

Postal Inspection Service investigations in 2004 resulted in $146.2 million in long-term cost avoidance and $19.8 million in COP cost savings, totaling $166 million in cost savings for the Postal Service.

During the course of criminal investigations of workers' compensation fraud this year, postal inspectors identified 760 individuals alleged to have defrauded the workers' compensation program. Investigations in 2004 achieved significant results as identified in Table 1-2.

Table 1-2 Workers' Compensation Fraud— YTD September 30, 2004

Front-end schemes resolved	497
Front-end cost savings	$19,777,076
Long-term schemes resolved	225
Long-term cost avoidance	$146,211,280
Arrests	41

l. Emergency Preparedness

1. Biohazard Detection System and Related Programs

The Postal Inspection Service's Dangerous Mail Investigations and Homeland Security Group refined the Postal Service's plan for responding to the detection of biohazards in the postal system. To date 182 postal inspectors have been certified and equipped as Hazardous Waste Operations and Emergency Response

(HAZWOPER) technicians to respond to and conduct BDS crime-scene investigations.

Postal inspectors continue to work with the Postal Service's Engineering and Emergency Preparedness Groups, as well as other law enforcement and intelligence agencies, on a multiphase project to assess potential terrorist acts that employ chemical, biological, radiological, or explosives threats against the Postal Service. Inspectors also conducted national emergency communications tests as part of the Continuity of Operations Plan. The test ensures that viable communications exist between Postal Inspection Service offices nationwide and Headquarters in Washington, D.C., in the event of an emergency.

The Dangerous Mail Investigations and Homeland Security Group established a postal inspector liaison with three federal agencies: the Central Intelligence Agency, the Federal Bureau of Investigation, and DHS. The liaison enables the Postal Inspection Service to gather intelligence on threats that could affect the Postal Service. An added benefit is that other agencies will learn how to assist the Postal Inspection Service in developing and analyzing threat information as part of a comprehensive, risk-management program.

2. Headquarters Watch Desk

The Inspection Service has classified certain events as "critical incidents" that may have national implications and require immediate action. When such an event occurs, Postal Inspection Service division personnel, other law enforcement agencies, and DHS immediately contact the Headquarters Watch Desk to report information about the incident. Information is disseminated as necessary to postal officials for appropriate action.

The Postal Inspection Service has identified the following events as "critical incidents":

■ All bomb incidents.

■ All Inspection Service responses to suspicious substances or powder incidents.

■ Suspicious, threatening, or harassing mail.

■ Inspection Service investigations or actions that result in a shooting, serious bodily injury, or death.

■ Violence in the workplace, including homicides, suicides (actual or attempted),

robberies, or assaults resulting in serious bodily injury.

■ Man-made or natural disasters, cyberattacks, work stoppages, or civil disorders that may impact operations.

■ Mail transportation disasters.

■ Missing Postal Service vehicles.

■ Suspicious activities in and around Postal Service assets that may indicate terrorist involvement.

■ Any incident that may generate significant media attention.

The Chief Postal Inspector and the Deputy Chief Inspector of Headquarters operations will determine notification requirements for the Postmaster General, Deputy Postmaster General, Chief Operating Officer, members of the Board of Governors, Inspector General, and any other executive officers. If appropriate, the Deputy Chief Inspector of Headquarters operations activates the Command Center to coordinate the critical incident.

5. Planning

a. 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. In July 2004 Resource Management deployed Interactive Voice Response (IVR) technology and provided updated enhancements to the software application to improve complement management, cost effectiveness in operational efficiency, and automated system-generated reports to all management levels. The key components deployed in 2004 were:

■ One automated call-in number using IVR technology to handle the majority of employee call-ins.

■ One centralized Call Center to receive calls not handled by IVR.

■ Fulfillment center to mail out required information for new Family and Medical Leave Act cases.

■ Enterprise Resource Management System (eRMS) software enhancements to provide more user-friendly features.

■ System-generated, automatic reports to management for better accountability.

■ A positive, proactive communications plan which includes videos, service talks, Site Transition Guide, Field Tool Kit, and other postal publications.

As the *next generation* program was implemented in 2004, an integrated approach to link Time and Attendance Collection System (TACS) with the Resource Management System was completed to provide real-time data. This integration provided a robust tool to manage the daily business operations and reduce operating costs. Several eRMS integration efforts with eReassign, the Employee Ideas (eIDEAS) Program, and the Enterprise Injury Compensation Performance Analysis System (EICPAS) are in progress to provide users with an extensive resource tool in 2005.

By the end of September 2004 IVR was implemented in 73 sites, covering more than 350,000 employees. IVR conversion was completed in 2004 and will be rolled out to the remaining sites during 2005.

b. 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). In order to maintain continuity and provide effective administration of FMLA cases, FMLA coordinator positions were authorized at the district level to offer subject matter expertise to Postal Service employees and customers. A comprehensive, three-day training program was required for certification of all FMLA coordinators. However, to increase operational efficiency, a fulfillment center was established to eliminate the manual transactional tasks normally performed by the FMLA coordinators.

c. Human Capital Enterprise/HR Shared Services

Human Capital Enterprise and HR Shared Services have begun to implement *PostalPEOPLE*, a project that transforms the Human Resources function. Over 3,800 HR professionals at the Postal Service rely on more than 200 processes and some 70 systems to support more than 700,000 employees and facilitate millions of personnel changes each year. Many of the current

systems are at maximum capacity, not integrated, and use software that is no longer supported by industry.

PostalPEOPLE will feature redesigned processes that streamline, standardize, and automate HR processes by replacing existing, outdated technology with one, fully integrated HR system that will include a Shared Service Center and enhanced self-service. The result will be "one-stop shopping" for all employees and managers to conduct their personnel activities.

Implementation of *PostalPEOPLE* begins in January 2005 with completion in 2007. In 2004 the Board of Governors approved the Decision Analysis Report for *PostalPEOPLE*. Field briefings about the project were conducted for all Personnel employees and a location for the Shared Service Center was selected. Benefits Online, a Web-based tool that provides benefit information, was implemented to a segment of employees, with plans to expand coverage to a wider audience.

6. Labor Relations

a. Collective Bargaining

The Postal Service has nine collective bargaining agreements with seven unions covering approximately 680,000 employees. Negotiations with Postal Service unions cover a full range of topics involving wages, benefits, and conditions of employment.

In August 2004 the Postal Service and the National Rural Letter Carriers' Association reached a tentative agreement to extend the current 2000–2004 National Agreement for two additional years through November 20, 2006. The tentative agreement provides for a 1.3 percent wage increase effective November 27, 2004, and a 1.3 percent increase effective November 26, 2005. Other terms include continuing the cost-of-living allowance, establishing a standard time allowance for reloading and unloading vehicles, an increase in the reimbursement rate for rural carriers who furnish their own vehicles, and creating a joint task force to discuss issues related to future developments in mail delivery. The tentative contract extension is applicable to approximately 118,000 employees. The tentative agreement has since been ratified.

In May 2004, the Postal Service and the National Postal Professional Nurses (NPPN) reached a tentative agreement to extend the 1999–2004 National Agreement for an additional two years. The extension agreement was ratified in June 2004. The terms of the extension include annual general salary increases based on increases in the Employment Cost Index — the first effective August 21, 2004, and the second

effective August 20, 2005. Eligible employees received uniform allowance program increases of 5 percent in August 2004. The Postal Service and NPPN also agreed to work together to address the grievance backlog. The agreement is now due to expire August 18, 2006.

In October 2004 a tentative agreement was reached with the Fraternal Order of Police (FOP), National Labor Council USPS No. 2 (which represents approximately 870 postal police officers) for a successor to the collective bargaining agreement that expired on April 9, 2003. The tentative agreement has since been ratified.

The Postal Service and the NALC, AFL-CIO published the fifth edition of the *Postal Service-NALC Joint Contract Administration Manual* in February 2004. Distribution was made in both hardcopy and electronically to insure availability to all city delivery and Labor Relations offices. First negotiated and published in 1998 and updated yearly, this guide is an essential component of the Postal Service-NALC dispute resolution procedure. In August 2004 the Postal Service and the NALC jointly developed and delivered contract application training and process support to nearly 150 Postal Service and NALC Step B representatives in two sessions. Step B representatives are responsible for addressing and resolving disputes at the local level. This training component was developed by the national parties in the belief that continued success in reducing workplace disputes is dependent on continued support and training at the national level.

The Postal Service finalized a Joint Contract Interpretation Manual (JCIM) with the APWU in June 2004. The purpose of the JCIM is to provide guidance to the field on contract application and to reduce grievances. The parties began conducting joint training on the JCIM in October 2004, with a target audience of supervisors and union officials nationwide.

The Postal Service and NPMHU continued joint training on their Contract Interpretation Manual. In addition, for the seventh consecutive year, the parties co-hosted an annual Quality of Work Life Conference

b. Consultation with Management Associations

Throughout the year a program of consultations was conducted with each of the management organizations. These organizations represent postmasters, managers, supervisors, and other nonbargaining employees. The sessions provided an opportunity for the organizations — the National Association of Postal Supervisors, the National Association of Postmasters of the United States, and the National League of

Postmasters — to participate directly in the planning, development, and implementation of programs and policies affecting approximately 80,000 managerial employees. The resident officers of the three organizations collaborated with senior management in support of this effort.

In addition to regularly scheduled consultations the parties continued to collaborate on the newly developed pay-for-performance (PFP) system. The parties held numerous discussions aimed at ensuring the proper administration of the PFP process, particularly the end-of-year 2004 evaluations as well as planning for the successful administration of the PFP process for 2005. Other significant matters discussed included implementation of the Voluntary Early Retirement (VER) offer for Postmasters, EAS-11 through EAS-18, changes to the compensation policy applicable to Postmaster Relief/Leave Replacements and Officers in Charge, and the Supervisory Differential Adjustment. 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 recommend necessary improvements to make the Postal Service successful.

c. Equal Employment Opportunity

Through the efforts of the Office of Equal Employment Opportunity (EEO) and the REDRESS (Resolve Employment Disputes, Reach Equitable Solutions Swiftly) program, requests for EEO counseling decreased by 11 percent and formal EEO complaints decreased by 6 percent for 2004.

REDRESS, a nationally recognized model program, utilizes outside mediators, and is offered in addition to traditional EEO counseling.

In 2004 the participation rates in the REDRESS program during the pre-complaint counseling process rose to more than 87 percent nationally, an increase over the 82 percent reached in 2003. When mediation is used, disputes are resolved at more than twice the rate of the traditional counseling process. During 2004 almost 72 percent of the almost 12,000 complaints mediated through the REDRESS program were successfully closed.

In January 2004 EEO investigations were centralized at a new National EEO Investigative Services Office (NEEOISO) in Tampa, FL. NEEOISO uses a staff of professional EEO analysts to monitor investigations done by private independent contractors. NEEOISO's goals are to produce high quality and timely EEO investigations in accordance with Equal Employment Opportunity Commission regulations. The use of private contract investigators helps maintain the required neutrality of the investigative process. Since January 2004 NEEOISO has closed more than 3,600 investigations.

d. Complement Management

The Postal Service utilizes a national complement planning, tracking, and management system with national standardized procedures and work processes. By standardizing complement management, performance cluster level management can determine appropriate complement plans by installation and function.

The Business Management Guide (BMG), in which complement plans are budget-based, has been rewritten to reflect changes in the latest computer systems environment. The Web Complement Information System (webCOINS), in which the BMG plans are converted to authorized staffing levels, has been enhanced to include Headquarters' staffing. Also, there are plans to link webCOINS with operational field review results to provide more accurate authorized staffing levels.

Area and cluster complement committees continue to expand their use of webCOINS to monitor and adjust complement to meet their plans. The Field Complement Plan has been developed and will house consolidated area and national complement forecasts. This will allow operations to track the effectiveness of current and projected complement plans.

In 2004 all complement coordinators were trained on Standardized Complement Committee Processes and this training will be rolled out to all Complement Committee members nationwide. Operations Complement Management, a Labor Relations unit, continues to enhance and develop new planning and tracking tools to support this standardization effort. These tools aid in management decision-making by local and area complement committees.

As an organization, the Postal Service must be aware of workforce dynamics, like attrition, and understand how to manage such complement changes. Complement management is being leveraged to drive costs down and address the changing business landscape.

C. Service to Small or Rural Communities

When the Postal Reorganization Act of 1970 was enacted, the specific intent of Congress was to ensure effective postal services to residents of both urban

and rural communities. A change in community postal needs or the loss of suitable facilities may lead to the closing of a Post Office facility or its consolidation into a station, branch, or contract Post Office.

Retail optimization is a dynamic and evolving process that establishes decision-making criteria for updating the retail network. When changes affect the retail network, such as a change in operating hours, the Postal Service uses a variety of media to advise the public, mailers, management associations, labor unions and employees of any such change. Before a Post Office location is closed, however, the Postal Service follows a statutory procedure including customer notice and appeal rights.

In practice, few retail outlets are closed or relocated. In a normal year about 100 of approximately 28,000 Post Office locations are closed. When a Post Office location is closed, communities on average appeal less than 10 percent to the Postal Rate Commission (PRC), which remands less than 1 percent of the total annual closures to the Postal Service for further consideration.

D. Postal Cost Apportionment and Postal Ratemaking Developments

1. Experimental Periodicals Co-Palletization Dropship Discounts for High Editorial Publications: Docket No. MC2004-1

On February 25, 2004 the Postal Service filed a request for alternative co-palletization/dropshipping discounts to encourage heavy-weight, high editorial Periodicals to move from sacks to pallets and to dropship. These discounts would fill a gap in an ongoing co-palletization experiment by adding discounts that provide an adequate incentive for publications with predominantly editorial content. The experimental discounts would be in effect for two years. The ongoing co-palletization would be extended so its end coincides with the new experiment. While the proposal produced a substantial amount of discovery, the parties agreed to an unopposed settlement. The PRC recommended the proposal on July 7, and the governors approved the recommendation on July 19. The new discounts, implemented October 3, are expected to help mailers and the Postal Service reduce the costs of Periodicals service.

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

On June 3, 2004, the Postal Service filed a request asking the PRC to issue a decision recommending implementation of an experimental classification and rate for matter mailed using a Postal Service-supplied Priority Mail flat-rate box. Under the proposal Priority Mail users would be able to mail items using two, differently shaped boxes, one the general shape of a shoe-box, the other more suitable for garments, both with the same cubic capacity. Users would be able to mail any mailable material capable of fitting into the boxes at a single rate, regardless of the distance or the weight of the parcel. The flat rate proposed by the Postal Service is $7.70, or exactly twice the lowest existing Priority Mail rate.

All but two of the case participants entered into a settlement agreement as a means of resolving the issues. The PRC issued an Opinion and Recommended Decision on October 6, supporting the Postal Service's proposal. The Board of Governors approved the proposal in October for November availability.

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

On June 21, 2004, the Postal Service filed a request with the PRC seeking a recommendation on rate and classification changes designed to implement a three-year negotiated service agreement (NSA) between the Postal Service and Bank One Corporation, (Bank One). In its request, the Postal Service pointed out that this NSA shared material terms and conditions with the Capital One Services, Inc. (Capital One) NSA, recommended by the PRC in 2002. The Postal Service requested the PRC find the Bank One NSA to be "functionally equivalent" to the "baseline" Capital One NSA under the PRC's recently promulgated rules.

After the request was filed, 14 parties intervened. Two parties requested a hearing, but then withdrew their requests on August 20 and September 2, 2004. An Opinion and Recommended Decision in the case was issued by the PRC on December 17, 2004.

4. Rate and Service Changes to Implement Functionally Equivalent Negotiated Service Agreement with Discover Financial Services, Inc.: Docket No. MC2004-4

On June 21, 2004, the Postal Service filed a request with the PRC seeking a recommendation on rate and classification changes designed to implement a NSA with Discover Financial Services, Inc. (DFS). This filing was one of the first two cases seeking approval of

a "functionally equivalent" NSA, as it is comparable in its most significant terms to the Capital One NSA.

After the request was filed, 12 parties intervened. The PRC issued its recommended decision to the Governors on September 30, and the Governors approved the NSA on October 27.

5. Complaint of Time-Warner, Inc. et al., Concerning Periodical Rates: Docket No. C2004-1

On January 12, 2004, the PRC received a pleading, styled as a Section 3662 rate complaint. The complaint alleged that the existing Periodicals rates could be improved by adoption of an alternative rate structure which they further alleged would bring Periodicals rates into greater conformity with the policies of the Postal Reorganization Act of 1970. Their alternative was designed to tighten the relationship between the cost-causing characteristics of a publication and the Periodicals rates paid by the publication. They urged the PRC to hold hearings on their complaint and recommend their proposals to the Governors.

The Postal Service responded on February 11, and opposed the mailers' request for relief on several grounds. First, the Postal Service argued that the mailers failed to allege that the existing rates fail to conform to the policies of the act, which, under both the relevant provisions of the commission's rules and the statutory language of Section 3662, is a prerequisite for initiation of a rate complaint. Second, the Postal Service argued that the mailers' efforts to challenge a rate structure, which they previously had the opportunity to challenge in the most recent omnibus rate case, constituted an improper attempt to circumvent the exclusive review provision of Section 3628. Lastly, the Postal Service noted that even if the filing were treated as a request to initiate a mail classification case without rate consequences, there were ample policy grounds to postpone consideration of the underlying classification issues until a more balanced proposal was available.

On March 26 the PRC went forward with a proceeding but acknowledged its intent to limit any resulting recommendations to the classification structure, obviating the possibility of any rate changes emanating from this docket. In April the complainants filed four pieces of testimony supporting their proposals. In September testimony was filed by a number of parties, including the Postal Service, opposing the complainants' specific classification proposals. The case is still pending.

6. Complaint on Electronic Postmark: Docket No. C2004-2

On February 25, 2004, a complaint proceeding was filed pursuant to 39 USC 3662, on the subject of United States Postal Service Electronic Postmark (EPM). The fundamental basis for the complaint was the allegation that the Postal Service is acting unlawfully by offering this purely electronic service without first submitting to the PRC a request for a recommended decision on classification provisions and rates associated with this service. In its responsive pleadings filed on April 26, the Postal Service argued that complaint proceedings before the PRC were not intended and are not appropriate to resolve issues as to whether the Postal Service is acting beyond its lawful authority.

Since USPS EPM is clearly not a postal service, and since the Commission lacks jurisdiction over "nonpostal" services such as USPS EPM, the Postal Service moved that the complaint should be dismissed on that basis. The Postal Service's motion to dismiss is still pending.

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

On May 19, 2001, a complaint was filed with the PRC, pursuant to 39 USC 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 PRC advisory opinion pursuant to 39 USC 3661. The complaint also alleged that the First-Class Mail service resulting from these service standard changes did not comply with various policies under the Postal Reorganization Act (PRA). The Postal Service contended that the service standard changes were part of a more extensive realignment plan previously submitted for PRC review in Docket No. N89-1. The Postal Service also did not consider that the service resulting from the changes was inconsistent with any policies of the PRA. In 2004 final testimony was submitted, and briefing was completed. The case is still pending.

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

On November 21, 2002, a complaint was filed with the PRC, pursuant to 39 USC 3662, alleging that 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 such removal had resulted in collection service that was inadequate. The Postal Service filed an answer in December 2002, explaining that, historically, fluctuations in the number of collection boxes were typical, and that, with the exception of boxes removed for concerns of public and employee health and safety, recent box removals were intended to be conducted in accordance with long-established guidelines.

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

In July 2003 the 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.

In February 2004 the PRC concluded that it was unwilling to grant the CSM scores in question the same protected status as such material had been afforded in the last omnibus rate case. In response to the PRC's order, the Postal Service indicated that it would not seek to rely on CSM scores and maintained that sufficient grounds existed, independent of those scores, to warrant dismissal of the complaint. The case is still pending.

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

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

to have fees established based on recommendations from the PRC.

The Postal Service filed an answer to these specific allegations on August 31, 2004, and is preparing a motion to dismiss the proceeding.

10. Repositionable Notes Market Test: Docket No. MC2004-5

On July 16, 2004, the Postal Service filed a request for a one-year market test of Repositionable Notes (RPNs), which are self-stick notes affixed to the exterior of letters or flats. Because RPNs are mechanically applied using air pressure, and may have an adhesive strip that is wider than on notes used in typical office settings, they are unlikely to become detached from the mailpiece during handling. After a period of testing and gradual introduction (RPNs are currently allowed on automation letters for no additional charge), the Postal Service proposed to test RPNs further by permitting their use on all letters and flats. The attachment of RPNs to mailpieces does not appear to cause the Postal Service to incur any additional handling costs. Based on the value of the RPN to senders and recipients, the Postal Service proposed rates of 1.5 cents for RPNs on Standard Mail and Periodicals mailpieces and 0.5 cents for RPNs on First-Class Mail pieces.

The PRC determined that the case should be considered as a provisional service case, rather than a market test, a decision which had no significant practical effect on the litigation. A joint motion was filed on August 11 by three parties seeking to have the request dismissed. The parties argued that because the proposed rates were not based on specific costs, the PRC could not even consider the request. The PRC denied the motion on August 30. In December the PRC issued a recommended decision; Board of Governors approval is still pending.

11. Foote and Foote v. United States Postal Service, No. CV03-9431 (C.D. Cal)

Two individuals filed a lawsuit, seeking class action status, against the Postal Service in federal district court in Los Angeles. The plaintiffs alleged that the Postal Service failed to provide mailers of Priority Mail with the level of service that these mailers were led to believe they would receive when they paid Priority Mail rates for items weighing less than 13 ounces and sent to destinations within three zones.

The plaintiffs alleged that the Postal Service breached real, or implied, contracts with the mailers of Priority Mail items, and further alleged that the Postal Service was "unjustly enriched" by receiving higher fees for Priority Mail service without providing more expedited service than it provides to non-priority First-Class Mail items. The other two counts were based on California state statutes.

The Postal Service filed a motion to dismiss, taking the position that there is no contract, in law or in fact, between the Postal Service and mailers of Priority Mail, and further arguing that Congress's scheme for postal ratemaking preempts plaintiffs' claims. It also argued that the Supremacy Clause barred any claims under these state laws. The plaintiffs subsequently decided to dismiss their claims voluntarily.

12. Rulemakings

During 2004 the PRC initiated several notice-and-comment rulemaking proceedings to consider amendments to its Rules of Practice and Procedure. On January 16, 2004, the PRC proposed new rules to incorporate a definition of postal services (as distinguished from nonpostal services, over which it has no jurisdiction) into its rules (Docket No. RM2004-1). The Postal Service did not oppose this initiative but suggested several refinements to the proposed definition. On March 5, the PRC proposed to expand the amount of information regarding nonpostal services that the Postal Service would need to submit when filing a request (Docket No. RM2003-2). The Postal Service opposed this proposal, instead taking the view that the amount of information regarding nonpostal services currently required is fully sufficient to allow PRC review and evaluation of proposed postal rates and fees. Initial and reply comments from interested parties have been submitted in both dockets. Finally, in a carryover from last year when the PRC initiated Docket No. RM2003-5, the PRC issued its final rules regarding proposed procedures for NSAs on February 11, 2004. The two NSAs subsequently filed by the Postal Service this year (Bank One and Discover) were filed in accordance with the portion of the new rules relating to "functionally equivalent" NSAs.

E. Transportation Policies

1. General

The Postal Service spent $4.97 billion in 2004 for the transportation of mail, including terminal dues, tran-

sit charges, and other international expenses which are discussed below. This represents a $20.0 million decrease from total 2003 transportation expenses. After the terrorist attacks on September 11, 2001, the Federal Aviation Administration (FAA) placed restrictions on larger mailpieces, which prohibited the Postal Service from using commercial air carriers for such mail. The Postal Service was forced to move virtually all Priority Mail items to shared air and surface networks. During 2004 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 2004 totaled $1.7 billion, a decrease of 3 percent from 2003. These costs include the use of domestic commercial airlines (passenger and freight) and dedicated networks. As a continued effort to improve the security pertaining to the air transportation industry, the Postal Service is still prohibited from transporting heavier mailpieces on commercial passenger airlines. This is still minimizing the volumes flown on commercial airlines and shifting volume to the shared air network.

The Postal Service has completed the first 15 months of the commercial air transportation system (CAIR-03) contracts. At the onset of the CAIR-03 contract Air Category Management Center awarded 18 individual contracts. Scanning requirements for these contracts began in September 2003. Since then, the Postal Service has been able to track the true performance of all suppliers based on their scans adding both performance and cost into the best value criterion used for routing selection. These contracts enhance competitive positioning by using performance data to manage mail flows.

In addition to the CAIR-03 and Network contracts, the Postal Service also operates alternate methods of transportation (AMOT) and air taxi contracts. These contracts are for point-to-point segments for those markets where there is not sufficient air transportation offered by the CAIR or network contractors. These contracts have been awarded at a significant cost reduction compared to the previous air contracts operating in these markets.

b. Rail Transportation

Postal Service expenses for all rail transportation were $169.5 million for 2004. This represents an

8.0 percent decrease from 2003. In 2004 the Postal Service paid Amtrak $46.1 million for rail transportation service. The majority of service provided by the Amtrak transportation network is for Periodicals mail. The remainder was paid to 11 other railroads that perform service on rail segments throughout the country. Recently Amtrak announced that it will no longer carry mail. Amtrak's volume will shift to the next least costly transportation mode that meets the product's service requirements.

c. Highway Transportation

The Postal Service spent approximately $2.4 billion for highway mail transportation in 2004. This represents a 1.3 percent increase from 2003 expenses. This compares to a decrease of 0.1 percent in 2003 compared to 2002.

d. Water Transportation

In 2004, the cost of transporting mail to domestic offshore destinations by water was $27.2 million, an 8.8 percent increase from that reported in 2003.

3. International Transportation

a. International Air Transportation/International Air Deregulation

The Postal Service continues to align its air transportation strategy with the global universal requirements of American businesses and consumers. In 2004 the Postal Service spent $205.9 million on international air transportation that served more than 188 foreign postal administrations. U.S. flag suppliers were paid $175.5 million, and foreign flag suppliers received $30.4 million. The use of foreign flag suppliers, particularly for airmail service, expands the Postal Service's ability to reach destinations where U.S. flag suppliers do not provide the required service. In addition, the cost of military mail, reimbursed by the Department of Defense, increased from $146.2 million to $343.7 million from 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 a transfer to the Postal Service of the authority to contract competitively for such transportation in the open market. Such a transfer of authority may require legislation that is currently being pursued.

b. International Surface Transportation

The cost of international surface transportation by ocean increased from $4.1 million in 2003 to $4.8 million in 2004. Ocean surface transportation suppliers are selected on the basis of a best value comparative analysis of proposals.

c. Terminal Dues, Transit Charges, and Other International Expenses

Under the acts of the Universal Postal Union (UPU), each postal administration that receives mail from another administration has the right to collect from the sending administration a payment for the costs incurred in processing and delivering mail received from that administration. These charges are called terminal dues. International Express Mail also incurs processing and delivery costs, from foreign postal administrations (FPAs) as well as private courier services. 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. Further, the Postal Service has a bilateral agreement with Canada Post Corporation (CPC) outside the UPU framework that also results in terminal dues and similar charges for CPC processing and delivery of mail originating in the United States.

For the most part, settlements of terminal dues and transit charges are contingent upon both the Postal Service and the 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 can occur a year or more after the service is performed. In order to record expenses associated with the current year, the Postal Service accrues an estimate of these expenses based on available weight and piece data by country. In 2004, the Postal Service recognized $415.1 million in terminal dues, Express Mail, transit charge and other international expense unrelated to the transportation of mail. The comparable number for 2003 was $370.3 million.[1]

[1]The 2003 *Comprehensive Statement on Postal Operations* reported terminal dues at $360.4 million. This amount has been adjusted to reflect amounts previously reported as air transportation that belonged in the terminal dues category.

4. Postal Service-Owned Transportation

Table 1-3 Vehicle Inventory

Vehicle Type	2004 Inventory
1/4-Ton	22
1/2-Ton	179,508
1-Ton	1,180
2 and 1/2-Ton	7,484
Cargo Vans	2,502
Tractors	1,802
Spotters	401
Trailers	4,683
Service	5,379
Administrative	5,546
Law Enforcement	2,675
Mobile Post Office	205
Miscellaneous	751
Total Owned	212,138*

*Excludes vehicles in storage pending disposal

Table 1-4 Vehicle Operating Data

Miles Traveled	1,191,455,052
Miles per Gallon	9.8
Cost per Vehicle	$4,431
Cost per Mile	$.81

5. Mail Transport Equipment

Mail transport equipment (MTE) consists of sacks, trays, lids, pallets, and wheeled containers that enclose and transport mail. The Mail Transport Equipment Service Center (MTESC) program is an out-sourced, production-oriented, volume-driven integrated network of 22 MTE processing facilities. 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. The MTESC network is undergoing transformation to streamline processing and reduce operating costs.

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

F. Postal Service Facilities, Equipment, and Supplies

1. Environmental Programs

a. Environmental Management Systems

Environmental Management Systems (EMS), based on International Organization for Standardization 14001 specifications, provide an efficient framework for managing environmental responsibilities and compliance with various levels of legislation. EMSs are being implemented nationwide to provide risk-based identification of high priority areas and structured, systematic tools to manage these programs. The Seattle Bulk Mail Center has taken a lead in this effort by developing and implementing a cost-saving shrink-wrap recycling program.

b. Energy Achievements

1. Telemetering

The Postal Service utilizes telemetering to collect comprehensive energy usage information automatically via electronic systems. These data are essential to monitoring the achievements of energy projects and progress toward the goals of Executive Order 13123, Greening the Government through Efficient Energy Management. Telemeter data can also be used real-time by Postal facilities to monitor and control energy use and minimize costs.

2. Facility Energy Projects

In 2004 energy efficiency retrofit projects were identified at more than 50 facilities in the Pacific Area. The work included building retrofits of lighting, heating, cooling and air compressor systems, and onsite electricity generation by photovoltaic panels. These retrofits, valued at more than $28 million, required no up-front capital investment and will be completely paid off by energy cost savings in less than 10 years.

These projects will reduce electricity consumption for all included sites by 35 million kwh annually and will result in annual emission reductions of more than 9.8 million pounds of carbon dioxide and more than 13,200 pounds of nitrogen oxides. Other energy efficiency projects underway include a combined heat and power system in Florida, a chiller replacement and

lighting retrofits in Georgia, and a lighting pilot project in Virginia.

3. WebEMIS

The foundation of an energy data management system has been built into the Web-enabled Energy Management Information System (WebEMIS) energy module. Phase Two of development and a customer acceptance test on the energy module were completed in 2004. Once complete, the WebEMIS will be able to collect and analyze valuable energy data nationwide for all types of Postal Service facilities. Data will be available to complete annual energy reports for the Department of Energy and the Office of Management and Budget. Energy management will be enhanced by having the data to produce utility forecasts and models for conservation projects. Telemetered data will eventually feed directly into the WebEMIS.

The WebEMIS air quality module was completed in 2004 and has undergone prototype testing. By the end of the year, users will be able to track air-related permits; find general information on air districts and basins, and maintain detailed records on relevant equipment.

4. Air and AFV Program Accomplishments

The Postal Service remains a federal sector leader in alternative fuel vehicle use through new vehicle technologies and compliance strategies.

In 2004 the Postal Service deployed electric vehicles (EVs) for use in its delivery vehicle fleet. Unlike conventional alternative fuel vehicles, EVs have no tail pipe exhaust, evaporative emissions, or refueling emissions. With widespread use, EVs can reduce emissions of carbon dioxide and air contaminants, as well as reducing consumption of oil. Operating these vehicles may also eliminate some maintenance and repairs, such as tune-ups, oil changes, and exhaust service. Under a partnering agreement with the New York Power Authority, eight new electric vehicles were acquired and deployed in New York City.

As part of an advanced vehicle technology demonstration project, in 2004 the Postal Service began testing a new hydrogen fuel cell vehicle, the first commercial application of a fuel cell vehicle in the United States. A fuel cell is an energy conversion device that converts hydrogen and oxygen into water, producing electricity and heat which is then used to power the engine. This vehicle will be operated on a delivery route during the next several years, enabling the Postal Service to gather valuable data on the operation of these zero emission vehicles under real delivery conditions.

5. Pollution Prevention and Recycling

Various Postal Service entities around the country participate in WasteWise, the Environmental Protection Agency's (EPA) voluntary program that promotes recycling, waste prevention, and use of recycled products. The Northeast Area received the EPA's 2004 WasteWise Partner of the Year award — the highest honor in the WasteWise program — for the fifth year in a row.

2. Facilities

a. Real Estate Inventory

Table 1-5 Postal Service Real Estate Inventory in 2004

Total owned facilities	8,807
Total owned interior square feet	215,293,358
Total owned land in square feet	939,055,676
Total leased facilities	25,413
Total leased interior square feet	97,816,753
Total GSA/other government facilities	425
Total GSA/other government interior square feet	4,193,868
Rent paid, including taxes, on leased facilities	$945,946,562

b. Realty Asset Management

Realty Asset Management (RAM) provides internal expertise to identify, analyze, and maximize the return on underutilized and surplus real property assets controlled by the Postal Service. RAM generates income from real estate assets by maximizing the value of Postal Service property through its highest and best use, leasing or subleasing excess space to government and public tenants, and selling surplus real property. During 2004 gross revenues totaling $63.7 million were generated from the sources shown in Table 1-6:

Table 1-6 Realty Asset Management in 2004

	(in millions)
Leasing to private tenants	$13.1
Leasing to government tenants	$27.1
Sales of excess property	$23.5

c. Postal Service Facilities Workload

Table 1-7 Postal Service Facilities Workload

	Projects Completed During FY2004	Projects Ongoing as of End of FY2004
New construction, major renovations, and expansion projects	14	125
Building purchases	16	32
New lease construction	13	35
Other lease actions (alternate quarters, new leases, and lease renewals)	4,295	1,570
Expense repair and alteration projects	13,525	5,332
Capital repair and alteration projects	2,846	2,330

3. Supply Management

To increase customer satisfaction and reduce costs the Postal Service adopted the supply chain management (SCM) philosophy and business practices. SCM is a key enabling strategy of Postal Service Transformation, furthering the competitive and business objectives by focusing resources on lowering overall costs.

Through implementation of the SCM philosophy across the organization, the Postal Service has achieved $1.4 billion in cost savings, reductions, avoidances, and revenue since 2000. In 2004 more than $630 million was attributed to SCM activities. Included in these impacts are capital cost avoidance of $125 million in 2004 and $290 million since 2000.

Cost efficiencies and quality management were achieved through cross-functional collaboration within the Postal Service and partnerships with key suppliers. Supply Management focused on leveraging volume through strategic sourcing requirements, instituting standardized requirements based on historic demand, executing commodity strategies, deploying an organization-wide paperless requisitioning system, increasing the number of electronic catalogs within eBuy (the Postal Service's electronic purchasing system), and participating in strategic partnerships.

a. SCM Initiatives

In 2004 Supply Management provided aggressive support for strategic programs across many functions.

The MTESC network realized significant savings by implementing industry best practices in supply chain management, such as performance-based statements of work and reverse auctions. The mail equipment portfolio renegotiated contracts for 14 of the 22 sites, resulting in savings of $10 million in 2004.

Network Operations Management purchased 2,014 7- and 11-ton cargo vans for 150 locations to replace obsolete cargo vans. Through the use of SCM strategies, including online negotiations using a reverse auction tool, and by using existing partnership agreements for purchasing tires and batteries, the team achieved $12.3 million in savings and $6.2 million in cost avoidance.

A cross-functional team developed a protocol for evaluating costly products to identify the best value vehicle parts in terms of cost, quality, and labor. This effort produced savings of $645,897 in 2004.

The Postal Service traditionally purchased air lift capacity to Guam, American Samoa, and Micronesia at Department of Transportation (DOT) rates. DOT rate contracting required separate contracts with numerous small carriers to satisfy transportation requirements. The Postal Service abandoned DOT rate contracting and competitively leveraged volume to reduce air freight costs. The result was the new Continental Pacific Islands agreement with a single supplier resulting in $4.9 million in cost savings in 2004.

The Air Transportation Category Management Center (CMC) and its International Mail Operations functions used a reverse auction tool to obtain air charter mail transportation services for troops participating in Operation Iraqi Freedom. The significant savings realized through this effort are being passed on to the Department of Defense.

The Professional Services Category Management Team joined a cross-functional team to conduct market and price analysis of using independent investigators rather than employees in the EEO investigative process. Outsourcing this function provides better service as it adds to the perceived neutrality and integrity of the EEO process. These actions created cost avoidance of $5.9 million in 2004.

The Mail Equipment Portfolio awarded a contract valued at $370 million for Delivery Barcode Sorter Input/Output Subsystem (DIOSS) Expanded Capability (EC) next generation letter sorting equipment. The negotiation process used a new technique called parallel path evaluation, where proposal development, audit review and negotiation occur in a parallel process, and expedite the contract award. The impact from this project exceeded $21 million.

Eight small and five large businesses were awarded Quality Supplier Awards. These suppliers were recognized primarily for partnering with the Postal Service to achieve positive bottom-line and performance results through successful supply chain management efforts.

b. e-Business

The Postal Service's electronic requisitioning and catalog purchasing system, eBuy, provides a Web-based strategic purchasing tool via automation of streamlined SCM workflow processes. More than 60,000 postal requisitioners and approval managers have access to eBuy. They regularly make requests, obtain approvals, budget, and receive advanced shipping notices for online e-catalog supplies electronically. The eBuy system also enables supplier collaboration via e-mail messages and uses online electronic invoicing, invoice certification, and payment processes. During 2004 eBuy processed $394 million worth of e-catalog requisitions. eBuy is also used for requisitioning off-catalog supplies and services in order to capture all requisition information. e-Buy performs invoice certification for paperless invoices from utility companies and telecommunications suppliers. Based on pilot studies in 2004, the scope of invoicing and invoice certification, to include other off-catalog commodities, will be increased next year.

Supply Management aims to become an industry-leading strategic e-sourcing organization. Consistent with best-in-class commercial business practices, the Postal Service has increased its use rate of the desktop reverse auction software tool. As a result of using several full- and self-service e-sourcing tools, the Postal Service conducted nearly 600 reverse auctions in 2004, accounting for over $320 million of total expenses.

c. Purchasing Reform

Supply Management will implement purchasing reform to gain new effectiveness in buying and supplying activities. It will institutionalize supply chain management business practices throughout the Postal Service under a new policies integration initiative that combines buying and supplying practices.

The Postal Service plans to replace current regulations with regulations that are more business-like, streamlined, and focused on obtaining the best value. The new regulations will be easily understood; focus on purchasing quality goods and services at fair prices, and provide an expedited and inexpensive means of resolving business disagreements. This change will help provide the flexibility necessary to be successful in a highly competitive environment. The proposed regulations were published for review and comment in the March 24, 2004, *Federal Register*. Twenty companies, organizations, and individuals provided comments. After review, minor adjustments were made to the proposed regulations. Current schedules call for January publication of the new regulations in the *Federal Register*, and publication of accompanying *Interim Internal Guidelines* on *usps.com*.

Purchasing Integration conducted a comprehensive review of all buying and supplying directives, and designed a new, Web-based information architecture for access by employees. New Supply Management Web pages will detail overarching supply principles in a series of eight topical presentations on supplier relations, ethics and social responsibility, and best value and practices. Commodity-specific information will be made available, as will lessons learned and other resources. New policy development and oversight cross-functional processes also will be established.

d. Security- and Environmental-Related Purchases

Since the terrorist attacks and subsequent anthrax contamination in 2001, the Postal Service has acted decisively to protect and to provide security to its employees, customers, and postal facilities. A Biohazard Detection System (BDS) and ventilation and filtration systems (VFS) were developed as integral elements of this effort. After the initial contracts were awarded for that equipment, Supply Management has been dedicated to ensuring supplier performance, streamlining processes, and reducing costs for the required logistics network which supports these critical systems.

e. Major Purchases

Supply Management's facilities portfolio awarded a contract for $27.8 million for the renovation of Church Street Station in lower Manhattan, NY. This contract was awarded after the facility cleanup project was completed. The cleanup was required due to the significant damage sustained in the attacks of September 11, 2001 and the facility's close proximity to the World Trade Center. The station was returned to full operation in August 2004.

A contract for $28.9 million was awarded for cleaning and renovation of the Curseen-Morris Processing and Distribution Center, in Washington, DC, the final step in restoration of this facility after its contamination by anthrax in October 2001. This renovation project was started after a sterilization project was completed which eliminated anthrax at the site. The facility has returned to full operation.

A $35.8 million cleaning and renovation contract was awarded for the Trenton, NJ, P&DC. This renovation project was started after a sterilization project was completed which eliminated anthrax at the site. The renovation project is scheduled for completion in 2005.

The Mail Equipment Portfolio awarded a contract for $127.4 million for installation of the Automated Tray Handling System on the Automated Flats Sorting Machine 100 platform. By employing SCM strategies, $7.7 million was saved on this purchase.

f. Supply Management Operations

Supply Management Operations manages the supply of materials required for daily postal operations, through four material service centers and two material distribution centers. The Operations catalog includes more than 25,000 stocked items, 5,000 items ordered directly from suppliers, and 700,000 items available through electronically accessible commercial catalogs.

Supply Management Operations contributed to the integration of the supply chain between Maintenance and Material Management for the Postal Service by establishing a reporting relationship between Supply Management's National Materials Customer Service at the Material Distribution Center in Topeka, KS, and the Maintenance Technical Support Center in Norman, OK. These functions can now share complaint and operational questions so they can coordinate accurate responses. Questions are also shared with select suppliers to involve them directly with the customers. Suppliers now receive quick, accurate feedback in order to improve their product quality and support to the Postal Service.

Supply Management Operations has also taken the lead on a number of cross-functional programs and projects that overlap portfolios, coordinating between customers, SCM teams, and suppliers. An example was the collaboration with six suppliers to improve support for selected supplies during contingency operations. Suppliers identified alternatives and cost estimates, from which the Postal Service was able to develop standard operating procedures for providing rapid support in emergencies. As a result, standing inventory was reduced by $10 million in new stock while suppliers identified and provided more than $3 million in emergency protection supplies. Supply Management Operations manages an inventory valued at $101 million; an additional $414 million in supplies is managed by Operations but issued directly by suppliers.

International Merchant Purchase Authorization Card (IMPAC) holders for 2004 numbered more than 42,000. Small, routine purchases are charged using these cards. The Postal Service received revenue of $2.2 million in volume rebates from the credit card provider, an increase of 14.3 percent from 2003.

Supply Management Operations pursued process improvements and other cost avoidance initiatives to reduce the amount spent on spare parts for mail processing systems. The efforts resulted in $8.5 million in savings in 2004 on the Postal Automated Redirection System, Automated Tray Handling System for the Advanced Flats Sorting Machine 100, and Feeder Enhancement De-Stacking Retrofit.

Wholesale inventory turnover (the number of times inventory is replaced over the course of the year) improved by 18 percent during 2004. Inventory is calculated as the total number of inventory issues for the year divided by the aggregate average inventory level for the year. More than 4,000 new items with a value of $8.7 million were added to support new major programs.

g. Supplier Diversity

Maintaining supplier diversity is an essential component of the Postal Service purchasing strategy. The primary goal of supplier diversity efforts is to develop suppliers with the capacity and the capabilities to meet postal needs now and for the long term.

Five principle activities are targeted toward creating competitive access to postal business:

■ Offering online training for any employee involved in the procurement selection process.

■ Offering online access to databases containing pre-identified small, minority-owned, and women-owned businesses to compete for contracts.

■ Extending outreach to various segments of the customer population, including small, minority-owned and women-owned business organizations.

■ Identifying methods to streamline the purchasing process to ensure that it is more accessible to small, minority-owned, and women-owned businesses.

■ Recognizing and rewarding champions within the purchasing and supply manage-

ment organization that advocate on behalf of small, minority-owned, and women-owned enterprises.

Achievements in Supplier Diversity have been recognized by leading publications and organizations, including *Minority BusinessNews USA and DiversityBusiness.com*, which ranked the Postal Service fourth among public sector entities in promoting multicultural business opportunities. The Postal Service was nominated as "Corporation of the Year" and named "Advocate of the Year" by the National Minority Supplier Development Council Maryland/District of Columbia affiliate.

The result of these efforts has created exciting new opportunities to grow the marketplace by aligning Postal Service business objectives more closely with diverse customers. This has resulted in contract commitments reaching well over $3.4 billion with small business, $344 million with minority businesses, and $577 million in contracts with woman-owned businesses.

Priority Mail Flat Rate Boxes make shipping a breeze.

Zones? Scales? Figuring out postage? Way too much work! But not with Priority Mail Flat Rate boxes.
Two convenient sizes ... and one low price ... coast to coast!

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 integration of the voice of the individual consumer into business practices and to provide feedback to the appropriate organization to take action, respond, and improve. In 2004 Corporate Customer Contact handled almost 62 million customer inquiries. Of these, nearly 3 million were customer issues that were documented and electronically sent to the appropriate local Post Office or district Consumer Affairs unit for resolution. Reports providing statistical summaries of all documented issues are available for personnel with managerial oversight to analyze trends and take appropriate actions.

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. In 2004 the Privacy Office continued to integrate and communicate privacy issues internally and externally.

This year the Privacy Office accomplished two major goals. First, in partnership with Information Security (IS), it aligned the Business Impact Assessment (BIA) process to fulfill the E-Government Act requirements for federal agencies to issue privacy impact assessments for IT resources containing personal information. The BIA process is a systematic evaluation of every Postal Service system that contains information related to customers and individuals in contact with the Postal Service. More than 300 BIAs are complete, with more in process.

Second, the Privacy Office furthered its goal to develop effective, streamlined processes and tools for employees and customers. These included automation of Freedom of Information Act (FOIA) request processing through the e-FOIA Tracking System. This system will automatically generate the next FOIA Annual Report while reducing resources required for extensive manual hard copy processing.

3. Customer Outreach and Mailer Liaison

a. National Postal Forum

In 2004 the Postal Service directed and supported the National Postal Forum (NPF) in Washington, DC, which was attended by more than 6,000 business customers and exhibitors.

Knowledge is Power was the NPF theme, 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 interest to remittance, periodicals, package, and advertising mailers. NPF attendees also were offered sessions on address management, costs and rates, and fraud scams.

The forum's training and education program offered customers more than 100 workshops. As part of the Postal Service's commitment to continuing education, six certificate programs were offered with more than 1,500 participants.

This year's forum also featured five, full-day symposia on Marketing, Government, Periodicals, Packages, and Remittance Mail. Complementing the forum's educational program was the exhibit floor, which featured hundreds of companies displaying the latest in mailing supplies, services, automation equipment, software, and computers.

b. Executive Mail Center Manager Program

In response to feedback from the mailing industry the Postal Service partnered with mailing industry professionals and nationally recognized training experts to develop the U.S. Postal Service Executive Mail Center Manager Program. The program has been operational since December 2001. To date approximately 175 mailing industry professionals have completed the comprehensive, one-week training program. The program was expanded in 2004 and is now offered locally to mailing industry professionals nationwide through the Postal Customer Council (PCC) network.

c. Postal Customer Councils

PCCs are local, grassroots business organizations. They provide the Postal Service the opportunity to enhance its working relationship with local businesses and to better understand their needs.

During 2004 almost 200 local PCCs held more than 2,000 customer meetings. Many PCCs actively sought the participation of small- and medium-sized businesses through the Direct Mail Made Easy seminars. As a result of these seminars, more than 200 individuals became new PCC members.

"Keeping Posted" is a featured column about PCCs in Memo to Mailers. Complementing the newsletter is the national PCC Web site at *www.usps.com/nationalpcc.* In 2004 this site was cross-linked with *www.usps.com/directmail* and the Mailpiece Quality Control

Program Web site to create synergy between the customers visiting these sites.

A national plan to improve the current PCC network also was developed during 2004. Key components of the plan were the establishment of a central PCC database, the reintroduction of National PCC Day, and the improvement of educational workshops and seminars. PCC Day, held May 26 in Boxborough, MA, was the most successful in the history of the Postal Service with more than 7,000 viewing the Postmaster General via satellite. To enhance the value of PCC membership education the PCC team launched the Mail Center Professional Certificate Program, which previously was offered only at the NPF.

d. Advertising with Mail — Made Easy Seminar

The Advertising with Mail — Made Easy Seminar is now in its fifth year with a total of more than 200 seminars completed in cities across America. In 2004, 28 seminars provided more than 1,700 businesses with the information and tools necessary to effectively use the mail to advertise their products and services.

e. Mailing Industry Task Force

Following the success of its Phase I initiative in 2003, the Mailing Industry Task Force (MITF) announced a new Phase II initiative beginning in 2004. The MITF Steering Committee reorganized its industry/postal working group structure and shifted its focus to support two strategic objectives: stimulate mail channel revenue growth and make mail more effective. This restructuring added new members to the Steering Committee and resulted in three new working groups — Intelligent Mail/Address Quality, Pricing/Payment, and New Products/Services/Gateway — replacing seven work groups. An eighth committee on industry unification continues to operate independently as the Industry CEO Council. MITF currently involves more than 72 companies and some 200 industry and Postal Service executives. The Deputy Postmaster General and the chairman and CEO of Pitney Bowes serve as co-chairs of the Task Force.

Since the restructuring of the MITF, the Steering Committee and the three working groups are better positioned to operate in a collaborative process with a wide variety of business segments, including representatives from the vendor community, mail service providers, and end-use customers. As part of its change in direction, the MITF also developed an initiative to promote creation of innovative ideas to expand use of the mail by business and individual consumers. The Innovation Incubator Initiative was launched with a two-day Innovation Summit held at Postal Service Headquarters. The summit attracted more than 30 executives from Fortune 100 and other leading-edge companies and produced more than 90 concepts targeted for further study and possible development. Postal and industry executives hailed the event as a potential model for ongoing innovation generation efforts by the Postal Service and the Task Force.

With the launch of Phase II complete and its activities underway, the MITF is well-positioned to capitalize on innovative approaches with which it can achieve its new strategic objectives. It will continue to update the mailing industry by reporting on its progress at NPF.

f. Mailers' Technical Advisory Committee

The Mailers' Technical Advisory Committee (MTAC) was formed in the 1960s to tap into mailing industry interest and expertise to improve service, identify and solve problems, and refine systems and technology to respond to mailer needs. MTAC, an alliance between the Postal Service and industry experts, consists of 56 major mailing associations and other organizations.

When both Postal Service and industry members agree that an initiative is important enough to pursue jointly, a work group is assembled to pursue a target timeframe and objective. Progress is measured at the quarterly General Session meetings at Postal Service Headquarters.

g. Customer and Industry Conferences

In 2004 a new process was developed to make conferences available to officers and executives of the Postal Service by focusing on specific categories such as: advertising, associations, business, database and direct marketing, government, marketing, media, packaging, shipping and printing. A Customer Industry Conference Web site was developed to track historical data on conferences (past and present), as well as provide a centralized format for Postal Service Executives to ensure that the availability of upcoming events match their respective schedules.

h. Mail Technology Strategy Council

The Postal Service sponsors a Mail Technology Strategy Council that includes representatives from the mailing industry, paper manufacturing, printing, packaging, mail equipment, 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 provide their thoughts on where technology is heading and how these trends might be used to enhance the mailing industry. The group reviewed developments in digital printing and its use in advertising and billing

applications, developments and standards in Radio Frequency Identification (RFID), new technologies for remote sensing, and changes in the software industry with the development of middleware, which allows reading and writing data to the host application without making changes to the host code.

i. 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 2004 they processed approximately 1.3 million parcels and 73.1 million letters. To better serve customers the MRCs are used as diagnostic tools to pinpoint specific problem areas that affect mail volumes. By communicating these problems to mailers, mailers are able to improve their mail preparation and/or packaging. The Postal Service works closely with mailer organizations to determine ways 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. In 2004, the MRCs returned a total of 6.1 million pieces of mail to their rightful owners. Additionally, the MRCs continue to improve processes for identifying the rightful owner of the mail and therefore continue to increase the number of mailpieces returned to customers. The Mail Recovery Program works closely with Operations, Delivery Programs, Retail, and the Postal Inspection Service, to bring improved organizational efficiency to this activity.

j. Corporate Customer Contact

Corporate Customer Contact (CCC) provides customers with easy, toll-free access to a broad range of products and services through a comprehensive network of toll-free numbers. CCC handles a wide variety of general information inquiries through 800-ASK-USPS. An additional toll-free number, 800-222-1811, handles international and domestic Express Mail inquiries, as well as domestic delivery and signature confirmation inquiries. It accepts customer orders for stamps through 800-STAMP-24. CCC also provides support for the majority of e-mail customer contacts through the Contact Us page on *www.usps.com*. The overall goal is to improve customer service, improve operating efficiency, decrease general information calls to local offices, and increase revenue. The CCC network has centers in Denver, CO; Orem, UT; Jacksonville, NC; and Columbia, MD. This contact center network annually responds to 62 to 68 million phone and e-mail inquiries from across the nation. Queries range from general information, such as mailing rates, hours and locations of local Postal Service facilities, and service opportunities, to stamp orders, track and confirm inquiries, and technical problems related to the Web site.

B. Products and Services

The Postal Service has a statutory requirement to provide products and services that meet the varied needs of business and residential customers. In 2004 initiatives focused on developing new products and services to meet customers' needs, as well as improving the value of existing products and services.

1. Correspondence and Transactions

First-Class Mail service accounted for 48 percent of the Postal Service's total domestic mail volume in 2004. In 2004 there was a continued focus on transaction mail (bills, statements, and payments) to strengthen the mail as the primary channel for financial transactions. Ongoing refinements of the National Firm Holdout program and constant attention to two-day and three-day service performance have supported service improvements in this critical part of the mail base.

a. Reply Mail

Reply Mail lets businesses provide preaddressed letters and postcards, with or without postage, to encourage customers to respond to their offers. In 2004 the development of a Reply Mail Web site makes Reply Mail easier and more effective. The Web site allows customers to learn how to use Courtesy Reply Mail (CRM) and Business Reply Mail (BRM) effectively. This Web site also increases customer ease-of-use by reducing the time and effort currently required to apply for BRM and obtain a new BRM permit and ZIP+4 Code. CRM customers are able to design their letter/postcard mailpieces, obtain a unique ZIP+4 Code, and create an electronic CRM mailpiece.

b. Remittance Mail

Remittance Mail is the segment of First-Class Mail service that is comprised of payments typically enclosed in Courtesy Reply envelopes. When combined with the outgoing bills and statements, bill and remittance mail accounts for an estimated 50 billion pieces of mail, 49 percent of items sent by First-Class Mail service.

Because of the economic importance of bills and remittance mail volume, the Postal Service has undertaken an "Improvement and Innovation Initiative" to respond to current and growing challenges in the payments industry. The initiative is designed to iden-

tify and implement service improvements that ensure consistent performance and expedited mail processing and delivery, plus position the Postal Service as a value-added service provider through the introduction of innovative solutions for industry.

2. Direct Mail

Direct mail is a significant source of revenue for the Postal Service and is an important direct marketing medium. Direct mail consists mostly of items sent by Standard Mail, but also includes some items sent by First-Class Mail. The Postal Service estimates that 10 percent of the First-Class Mail volume is direct mail advertising. According to the Direct Marketing Association, direct mail expenditures garnered a 19.4 percent share of the total direct-response advertising market in the United States in 2003 and generated $17.17 billion. A large and important portion of Standard Mail revenues is derived from catalog mailings.

Direct mail is a content-rich advertising medium that is appreciated by direct marketers for its effectiveness, particularly in the areas of targetability and measurability. Direct mail's response rates and return on investments are among the highest of all advertising media. This effectiveness is even higher when direct mail advertising is sent using First-Class Mail service.

To strengthen the market position of direct mail further, the Postal Service has introduced and continues to support and promote several innovative new products:

a. Repositionable Notes

Repositionable Notes give direct mail an extra edge by allowing direct marketers to apply specialized sticky notes on the front of mailpieces to communicate highly targeted and actionable messages to consumers. The note then can be repositioned on a refrigerator, computer, or near a telephone to serve as a handy reminder of the promotion, information, or offer. Launched in April 2003, Repositionable Notes can be used on automation-compatible letters.

b. Customized MarketMail

Customized MarketMail (CMM) service is dimensional direct mail that enables direct marketers to utilize unique mail formats to achieve superior customer awareness and response rates. CMM service was introduced in August 2003, and advertisers tested its creative possibilities throughout 2004. Enhancements added to CMM service in March 2004 allow mailers to include Standard Mail attachments and utilize standard addressing.

c. The Ride-Along

The Ride-Along service is a separate promotional piece, such as a product sample or multimedia CD, in a polywrap with a host periodical piece. Advertisers can use Ride-Along service to add a new dimension to advertising and customize messages by industry or subscriber interests.

d. Direct Mail Promotion and Research

To promote direct mail the Postal Service is actively engaged in raising awareness about the medium with advertising agencies. An integrated advertising campaign targeting national advertisers was launched in 2004 to promote direct mail's strengths. A direct mail promotion also was conducted with advertising professionals touting the creative possibilities available through CMM service. Additionally, the Postal Service is engaged continuously in market research to better understand consumer behavior and market dynamics. Every two years the Postal Service conducts a market research project called "The Mail Moment" that reveals consumer experiences as they interact with the mail. Other relevant market research studies include the Small Business Tracking Study to understand issues and challenges small businesses have with direct mail and the Multi-Channel Catalog Study, which highlights Web-based consumer shopping experiences tied to catalogs received in the mail.

Finally, in combination with area office Marketing and Operations functions, quarterly Standard Mail focus group meetings are conducted with industry representatives to discuss direct mail issues. Attendees describe these meetings as some of the best industry-focused information exchanges held by the Postal Service to identify opportunities.

3. Special Services

Special services add value in four primary ways:

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

■   Allowing customers to track letters and flats.

■   Providing convenience through Collect On Delivery (COD) services.

■   Providing alternative ways and places to receive mail through the Post Office Box service.

a. Electronic Verification of Certified and Registered Mail

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

b. Return Receipt (Electronic)

In September 2004 the Postal Service introduced a new domestic, special service called Return Receipt (Electronic). This service provides customers with an alternative to the existing Return Receipt PS Form 3811, Domestic Return Receipt (Green Card) by allowing the use of low-cost technologies. This service is also more efficient for the Postal Service than the PS Form 3811, and allows customers to retain electronic signature records longer than the Postal Service retention period.

Return Receipt (Electronic) is purchased at the time of mailing with Certified Mail, Registered Mail, COD, or Numbered Insured Mail services. After the purchase, the customer goes to *www.usps.com* to enter the e-mail address at which they wish to receive their return receipt. After delivery, the customer receives a return receipt proof-of-delivery letter via e-mail that includes the date and time of delivery and an image of the recipient's signature. Customers that mail large volumes can receive their records in bulk by signing up for the Bulk Proof of Delivery Program.

c. Insurance Online

In September 2004 the Postal Service added the option for customers who purchase Priority Mail and Express Mail labels on *www.usps.com* to add insurance to their Click-N-Ship purchases. Fees are the same as those at the retail counter. Coverage is limited to $200 indemnity for lost, rifled, or damaged items.

d. Confirm Service

First-Class Mail and Standard Mail services have been enhanced by the implementation of the Confirm service, which provides mailers with the ability to track their outgoing mail and incoming reply pieces. Confirm information enables mailers to make better business decisions by knowing the estimated delivery day and where their letters or flats are as they travel through the mailstream. The service provides mailers with near real-time information about First-Class Mail, Standard Mail, and Periodicals services by using Postal Alpha Numeric Encoding Technique (PLANET) Code barcode technology so mailers can identify their mailpieces. In 2004 the program team continued to work with internal stakeholders and the mailing industry to make Confirm service more robust for mailers and the Postal Service. Enhancements included development of a certification program to improve the quality of data for performance measurement, Web-site and Web-based shared reports used to report service performance information and data problems, and information on resources available to customers to learn about service performance and interpret data.

4. Mail Generation Services

Mail Generation Services include a suite of Web-based Print-and-Mail Services and Magazine Subscriptions available at *www.usps.com*. These services leverage the Internet to allow consumers and small businesses access to mail generation services.

In September 2003 the Postal Service entered into an affiliate business agreement to operate the NetPost Mailing Online Program. As of February 2004 the Postal Service's business partner, Touchpoint, Inc., began handling all operational components of the NetPost Mailing Online Program. The revenue-share arrangement has nearly eliminated Postal Service expenses while still providing a valuable service to medium and small businesses. The Netpost Mailing Online Program volumes have continued to climb and are expected to exceed 25 million pieces in 2004.

The first aspect of the NetPost Mailing Online Program allows customers access to First-Class Mail and Standard Mail services, including non-profit rate mailings by aggregating individual customer orders into larger automation compatible mailings. Available formats include letters, booklets, flyers, and postcards.

Another service, NetPost Premium Postcards, allows customers access to a simple, straightforward interface for sending postcards. This template-driven service enables consumers and small businesses access to high-impact mailpieces using digital images or text.

In addition, NetPost CardStore provides access to consumer or business-oriented solutions for relationship management mailings. NetPost CardStore uses real stamps to increase open rates and improve response rates.

Magazine Subscriptions Online is another mail generation service being provided via the Internet. This service provides access to discounts on major maga-

zines, tools to manage subscriptions and renewals, advanced category and price-based listings, and gift subscriptions.

5. Package Services

In 2004, to support the growing customer segment of medium and small businesses, the Postal Service focused on initiatives to improve access, ease-of-use, package tracking information, price, and service.

a. Parcel Select

Parcel Select service is the Postal Service's ground, package-delivery product designed for medium-to-large shippers that transport their packages to destinating Postal Service facilities. Parcel Select service offers excellent value and service. Shippers also benefit from the inclusion of Delivery Confirmation service in the base rate. In 2004 the Postal Service improved access for Parcel Select shippers by standardizing critical entry times and early bird hours at delivery units, as well as expanding the number of offices in the early bird acceptance network. Work is progressing to finalize the Electronic Verification System, an automated payment process that will increase flexibility, product information, efficiency of operations, and the payment process for both the Postal Service and Parcel Select participating shippers.

b. Parcel Return Services

Selling merchandise to customers through the mail results in hundreds of millions of packages a year being returned by consumers. The Postal Service's vast delivery and retail access enables it to provide a convenient returns process.

As a test to serve this growing customer need the Postal Service launched Parcel Return Services in October 2003. Parcel Return Services capitalize on the success of Parcel Select Service by allowing shippers to pick up returns at the same facilities where Parcel Select packages are deposited, providing improved logistics and value. Parcel Return Services provide favorable rates due to worksharing discounts that reflect savings from reduced transportation and handling costs. The Return Bulk Mail Center model has been successful.

c. Residential Delivery Indicator

The Postal Service's Residential Delivery Indicator (RDI) has been embraced by the shipping software industry as an added value for their end-user customers. The RDI data product, in conjunction with Coding Accuracy Support System software, identifies 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.

d. Cost Reduction Initiatives

During 2004 there was continued emphasis on reducing costs that support Postal Service package service products. Examples of these cost-reduction efforts include: managing the expenses of packaging supplies for expedited package products, resulting in significant reduction in total and unit costs; coordinating actions to improve mailer parcel barcode quality, and formalizing, as part of an MTAC workgroup, the testing process for the machinability and readability of items mailed in soft packaging.

e. Ease-of-Use and Access Initiatives

The Postal Service improved ease-of-use and access for Postal Service shipping solutions. Actions included:

In December 2003 the Postal Service rolled out a Priority Mail Prepaid Flat-Rate Envelope which featured a $3.85 Jefferson Memorial stamp printed directly on the envelope. Customers have responded favorably to the convenience.

For additional customer convenience the Postal Service implemented an experimental Priority Mail Flat-Rate Box in two shapes with the same cubic capacity. The rate for each of the two boxes is $7.70.

A new program through which Express Mail Corporate Account customers pay for their postage by credit card, is designed to enhance service and increase financial controls.

Since its introduction in May 2002, there has been continuous volume growth in the use of Click-N-Ship service. In 2004 the number of labels printed is expected to exceed 16 million, with more than half of them printed with postage, an increase of more than 120 percent over 2003. Several new features were added to this online shipping application at *www.usps. com*. Customers now can create up to 10 labels at a time, view their shipping history, save up to 1,000 addresses, and purchase insurance online.

The Postal Service also offers Carrier Pickup Online Notification, a way for customers to notify the local office through *www.usps.com* of prepaid packages, including Click-N-Ship, that will be available for pickup by the carrier on the next delivery day. Customers have always been able to give prepaid packages to their

carriers at the time of normal mail delivery, but on-line notification makes it simpler for customers to mail packages from their home or office.

6. Product Redesign

In 2004 Product Redesign efforts continued to focus on improving the value/cost relationship of the Postal Service's core products, in particular Periodicals and Standard Mail flats and address quality. Product Redesign seeks to increase value through changes in rate structures and preparation that reduce combined mailer and postal costs. Most changes will require PRC approval and are being assessed for inclusion in the next omnibus rate case. However, one change in preparation that helps reduce overall mail processing costs was implemented in 2004 within the current Domestic Mail Classification Schedule. The required 5-digit bundle minimum for lightweight flats likely to be processed on the Automated Flats Sorting Machine (AFSM) 100 was raised from 10 to 15 pieces resulting in cost savings.

A major study was conducted of address quality-related reasons that cause mail to be undeliverable. The study will provide comprehensive information on the volume, characteristics, and costs of this mail and on addressing deficiencies by class of mail and applicable mail processing category. These data will be used to assess proposals for improved address quality, such as those developed in the Mailing Industry Task Force and Product Redesign address quality workgroups. The results of the study will be available in early 2005.

Extensive modeling of costs associated with pro-cessing Standard Mail and Periodicals flats was com-pleted. The research will allow the Postal Service to understand the impact of revised Periodicals and Standard Mail flats rate structures on mail preparation and Postal Service costs by determining what chang-es, if any, mailers make to mail preparation and entry. This information will be used in deciding how this rate structure may be incorporated in the next omnibus rate case. Interviews of Standard Mail and Periodicals mailers and the research findings will be completed in early 2005.

C. International Mail

1. Volume and Revenue

Due to product enhancements, improved economic conditions, and rate stability, international mail rev-enue increased by 6.9 percent in 2004, compared to the preceding year. Associated piece volume increased

by 4.8 percent and piece weight by 7.3 percent. No rate adjustments were implemented.

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

The Postal Service continues a multiyear process of improving reliability and features of its expedited and package service offerings. Global Express Guaranteed (GXG), the premium, time-definite, guaranteed retail service, continued to grow. International delivery for GXG was contracted from DHL to FedEx in March 2004 and FedEx began service with the Postal Service on July 1, 2004.

In addition the Postal Service has furthered its ef-forts to transform its existing Global Express Mail and Global Air Parcel Post services into more reliable ser-vices featuring date-specific delivery and focusing on the most important geographic segments of the mar-ket. These efforts have resulted in revenue growth of 17.1 percent and 11.8 percent, respectively, in 2004.

These positive results have been effected through the efforts of the Postal Service and a select group of Asian posts embarked on an initiative to work col-laboratively to increase service performance quality to industry standard levels, including commitments to perform mandatory scanning and improve postal operations efficiencies. Rapid improvements have already been achieved by the Postal Service and its Asian partners.

3. State Department Coordination/UPU Congress

The Postal Service worked with the U.S. Department of State, which since October 1998 has had the pri-mary responsibility to formulate, coordinate, and over-see policy with respect to U.S. representation in the Universal Postal Union (UPU), to prepare for the 23rd UPU Congress, held September 15 to October 5, 2004 in Bucharest, Romania. The Postal Service analyzed 760 proposals introduced by the United States and other countries in coordination the Department of State and other federal agencies. A primary U.S. 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. The creation of a private-sector Consultative Committee was proposed and adopted at the UPU Congress. This Consultative Committee will include representatives of governments or postal regulators, postal operators, and private sector stakeholders who would participate in Council of Administration and Postal Operations Council activities. The Postal Service plays a leader-

ship role in key UPU activities with the goal of improving postal security and the quality of international letter, parcel, and expedited mail services, as well as promoting standards, direct mail, and postal improvements in developing countries.

Terminal dues are payments made to a destination country for the cost of delivering international mail. As these costs have a direct influence on international postage rates, the Postal Service worked together with the Department of State, in consultation with U.S. stakeholders, to develop positions that will ensure universal mail service at affordable rates. The 2004 UPU Congress adopted a new terminal dues system that will provide better cost-coverage for inbound mail, while managing costs for mail exported by the Postal Service to countries with high postage rates. In addition, the UPU Terminal Dues Action Group finalized a pay-for-performance program, which beginning January 1, 2005 will link terminal dues to the quality of letter post service provided by industrialized countries. By introducing incentives for high 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.

An extraterritorial office of exchange (ETOE) is a facility established by a postal administration or operator in another country for commercial purposes. ETOEs seek to enter items into destinating postal networks under UPU terminal dues without exercising reciprocal universal service obligations. Nearly 20 postal operators have established 100 ETOEs worldwide, with the largest concentration in the United States and Europe. The policy of the United States maintains that the traffic ETOEs generate abroad should be treated as other mail traffic from commercial entities, e.g., entered into the U.S. domestic mailstream under domestic rates and conditions and not under UPU terminal dues. More than 20 countries have announced similar policies, and a resolution consistent with this policy was adopted at the 2004 UPU Congress.

D. Mail Volume and Service Performance

1. Mail Volume

The Postal Service believes that the 2005 economic environment will be relatively favorable, with growth in economic output and aggregate demand, and moderate inflation. Also, 2005 will be the third year since the last increase in postal prices. Led by Standard Mail, the Postal Service expects total mail volume to grow slightly. But despite favorable economic circumstances, the Postal Service thinks First-Class Mail volume will continue to decline.

Mail volume is positively affected by economic growth. After a period of relative stagnation following the recession of 2001, economic growth picked up in 2003 and 2004, leading to 4.5 percent growth in the Gross Domestic Product (GDP) in 2004, as projected by Global Insight, Inc. The Postal Service relied on Global Insight's August 2004 projection, which was the latest available when the Postal Service developed its 2005 Integrated Financial Plan. Based on Global Insight's forecast, the Postal Service expects GDP growth to moderate to an annualized rate of 3.5 percent in 2005.

Economy-wide retail sales, an economic indicator for Standard Mail and Workshare First-Class Mail, grew 5.1 percent in 2004, but is expected to slacken, as a result of increased energy prices and interest rates. Increased energy prices are diverting consumer expenditures from other goods and services, and higher interest rates will dampen demand for mortgage refinancing and reduce the amount of cash consumers have available for large purchases. In addition, the stimulus from federal income tax cuts in 2003 caused a spike in retail sales during 2004 that will not be repeated in 2005. The projected 2005 retail sales slowdown leads the Postal Service to project a lower growth rate for Standard Mail volume and to project a small volume decline in Workshare First-Class Mail.

Employment is an indicator for single-piece First-Class Mail volume. For many years now, single-piece volume has declined. Total First-Class Mail also continues to decline despite increased employment and strengthened economic growth. Economic growth has only attenuated the declines in First-Class Mail volume and revenue because technological alternatives to mail are impacting the demand for First-Class Mail negatively. Some of the current decline in workshare mail relates to the weakness of the economy, but the decline is related to the absence of new hard-copy billing and statement applications and electronic diversion of bills and statements. The decline slowed toward the end of the year, largely due to economic recovery, but any volume growth should be transitory as First-Class Mail volume will continue to be affected negatively by long-term trends in communication and payment technologies. The moderate growth projected in employment by Global Insight is not sufficient to

drive volume increases that overcome the negative impacts of electronic diversion. The Postal Service is not projecting a reversal of the multiyear downward trend in First-Class Mail volume.

The Postal Service also expects Priority Mail volume to decline slightly due to continued changes in the structure and competitive nature of the package services market. The Postal Service thinks that Express Mail volume will stabilize after four years of decline because of higher prices charged by its competitors and the improvements it has made in this service. On the other hand, technological and demographic changes continue to cause declines in Periodicals. The growth the Postal Service projects in Package Services is based on projected increases in both Bound Printed Matter and Media Mail volumes, even though it expects a decline in Parcel Post.

Forecasts through 2006 are given by class of mail in the following table.

Table 2-1 Volume

(Pieces in Millions)	FY 2004 (Actual)	FY 2005	FY 2006
First-Class Mail	97,926	95,361	92,865
Priority Mail	848	811	757
Express Mail	54	54	52
Periodicals	9,135	8,825	8,684
Standard Mail	95,564	98,838	101,493
Package Services	1,131	1,139	1,150
International	843	883	866
Other*	602	566	580
Total	**206,106**	**206,476**	**206,448**

*Volume of mail sent by the Postal Service, Mailgrams, and Free Matter for the Blind and Handicapped are included in the Other category.

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 is independently administered by IBM Consulting Services under a contract with the

Fig. 2-1 First-Class Mail Volume and Total U.S. Payroll Employment
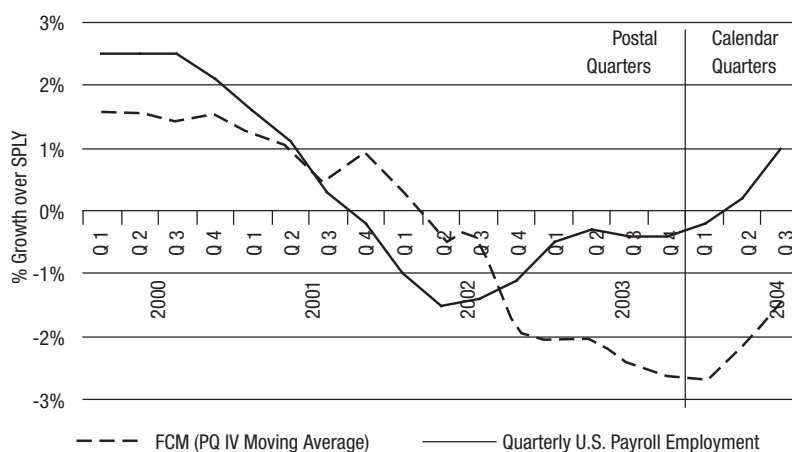
Vice President and Consumer Advocate. The main goal of TTMS is to measure service performance from the customer's point of view. The information gathered determines the effectiveness of system performance in satisfying customer requirements. The External First-Class (EXFC) measurement system, the major component of TTMS which has been in existence since 1990, is an external measurement system of collection box to delivery point performance. EXFC continuously tests a panel of 463 three-digit ZIP Code areas selected on the basis of geography and volume density from which 90 percent of First-Class Mail volume originates and to which 80 percent destinates. EXFC is not a system wide measurement of all First-Class Mail performance. The independent EXFC system reported national overnight performance of 95 percent for 2004. National service performance for two- and three-day service standard was reported as 91 and 89 percent, respectively.

3. Customer Satisfaction

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-Residential (CSM-R) — measures residential household customer satisfaction.

CSM-Business (CSM-B) — measures business customer satisfaction.

CSM-Event-Based (CSM-EVB) — measures event-based customer satisfaction.

The customer satisfaction survey process 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 2004. Postal quarter IV showed that 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 another high score of 94 percent in postal quarter IV. These business customers are the Postal Service's largest revenue customers and are managed by National Account managers.

Premier Accounts reported an overall performance rating of 93 percent for postal quarters I, II, III, and IV of 2004. These are large revenue generating business customers, managed by local account representatives.

Preferred Accounts reported an overall performance rating of 92 percent for postal quarters II, III, and IV of 2004. Preferred and Preferred Plus Accounts are all other business customers not identified as National or Premier Account companies or sites. Preferred Plus Accounts are commercial customers with varying revenue assigned to Account Representatives for business development. Preferred Accounts are typically small commercial organizations, managed by the local Post Office.

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

Percent Ratings	2004 PQ 1	2004 PQ 2	2004 PQ 3	2004 PQ 4
National Accounts	94	93	95	94
Premier Accounts	93	93	93	93
Preferred Accounts	91	92	92	92
Residential	93	93	93	94

E. Mail Distribution

1. Automation Activities

The Postal Service continues to automate mail distribution operations to improve efficiency and reduce costs. The foundation of this effort is barcode technology, which includes barcoding mail, processing bar-

coded mail in automated operations, and adjusting the workforce as necessary to capture savings.

a. Letter Mail Automation Equipment and Software

In 2004 the Postal Service continued to improve automated processing of letter mail through deployment of additional hardware and software.

Letter mail address recognition rates continued to rise as additional hardware and software upgrades were deployed for the existing multi-line optical character reader (MLOCR), Delivery Barcode Sorter Input/Output Subsystem (DIOSS), and remote computer reader equipment. Improvements were deployed to 346 mail processing centers under the Letter Recognition Enhancement Program (LREP). LREP is an incentive-based program where the vendor is paid based on the incremental performance improvements achieved. Improvements made this year under LREP raised the letter mail encode rate to more than 90 percent while reducing the error rate by 1 percent.

Another enhancement currently under evaluation introduces an additional database that is expected to improve sortation to the finest possible depth. Pilot testing was completed in September 2004, and deployment is anticipated to begin in mid-2005. Future improvements are projected to yield an additional 2–3 percentage point increase in the overall system encode rate by mid-2005.

In 2004 funding was approved for two optical character reader (OCR) enhancement projects: Advanced Facer Canceller System (AFCS) OCR upgrades and replacement of MLOCR machines with new DIOSS Expanded Capability (EC) machines and DIOSS kits for existing DBCS equipment.

The AFCS OCR project upgrades all existing AFCSs with optical character readers. These upgrades will be deployed in 2005.

The DIOSS EC machine is a further advancement of delivery barcode sorter (DBCS) technology that will include OCR and input/output subsystem capability. This allows automated processing of mail that currently requires manual distribution. Deployment of 395 of these systems, 217 kits to modify existing DBCSs, and modifications to all existing DIOSS and Combined Input/Output Subsystem (CIOSS) systems, is expected to begin in 2006. During the deployment, 646 MLOCRs will be removed from service.

These two projects reduce mail handling and will therefore increase productivity and decrease labor

costs. In addition, updating from the 20-year-old MLOCR technology to the current DBCS technology will enhance reliability and maintainability.

Funding was approved in 2004 for 1,632 additional DBCS stacker modules that will increase the sortation capability of these machines. First Article testing in July 2004 was successful. Nearly half were deployed in 2004; the remainder expected in 2005.

Deployment of more than 9,000 wide field of view (WFOV) cameras was completed in early 2004. The WFOV cameras replaced the aging and obsolete wide area barcode readers (WABCRs) on all existing DBCS, DIOSS, and carrier sequence barcode sorter (CSBCS) machines. This camera system can read information based indicia (IBI) codes and demonstrated a significant improvement over the WABCR in reading Postal Numeric Encoding Technique (POSTNET) and Postal Alpha Numeric Encoding Technique (PLANET) barcodes.

b. Flat Mail Automation

1. Flat Mail Video Coding Operation
at Remote Encoding Centers

For flats that are not pre-barcoded by the mailer, the currently deployed technology requires retranslating the address at each subsequent distribution operation. The Flat ID Code Sort (FICS) program applies an identification (ID) tag to each non-barcoded flat and saves the address coding result from the OCR or the remote encoding center (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 the Postal Service to support future efforts in flat delivery point sequencing and intelligent mail initiatives, such as making information about mail status available to customers in programs like Confirm.

Deployment of FICS began in May 2004. To date 251 systems have been deployed to the Capital Metro and Southeast Areas. Completion of deployment to all AFSM 100s is expected by June 2005.

2. Feeder Enhancements and Recognition
Improvements for Flat Sorting Machines

Deployment of 1,627 feeder enhancement retrofits to upgrade feeders on all 537 AFSM 100s was completed in 2004. The changes have made the AFSM 100 easier to operate and maintain. This program has improved throughput by more than 10 percent on the AFSM 100, which handles over 75 percent of the flats sorted in Postal Service processing plants. Further development of feeder improvements and other AFSM 100 enhancements will be evaluated during 2005.

FSM 1000s that have been modified with automated flats feeders and optical character readers are referred to as the upgraded flat sorting machine (UFSM) 1000. Deployment of improvements to further enhance the read rates on both the UFSM 1000 and the AFSM 100 is planned in 2005.

3. Advanced Flats Preparation with
Automatic Induction for the AFSM 100

Field tests in 2004 indicated significant labor savings on a fully automated feeding system for the AFSM 100. The system uses ergonomic work stations to prepare flats in automation-compatible trays. A mechanical tray handling system transports these trays to the AFSM 100 feed stations where the mail is automatically inducted without operator intervention. The Board of Governors approved the purchase of 210 Automatic Induction Systems in September 2004 and a contract was awarded in that month. Deployment is scheduled to begin in fall 2005 and be completed by August 2006.

c. Parcel Automation

The Automated Package Processing System (APPS) is the Postal Service's next generation machine for sorting parcels and bundles of mail. It is intended to replace the older, more labor-intensive small parcel and bundle sorter. APPS further automates package distribution and provides greater processing capacity through automatic package induction, singulation, and address recognition using an optical character reader/barcode reader/video coding system. The high throughput requirements (up to 9,500 pieces per hour with up to 200 separations) are supported by automated container unloading. The system also collects detailed information about each package, such as package type, size and weight, and supports in-route tracking of Delivery Confirmation codes.

In 2004 the Postal Service accepted the first unit and started deployment of a total of 74 machines. The deployment is expected to be completed in 2005.

2. Remote Encoding Centers

The automated distribution of mail relies on barcodes that represent the mailpiece address. For pieces that are not pre-barcoded by the mailer, the Postal

Service translates the address and applies the barcode. When all computer-based means of resolving address information have been exhausted, an image of the address is sent to a remote encoding center (REC) where operators use video display terminals and keyboards to process the address information. The results of this encoding are sent back electronically to the facility that has the mailpiece, thereby keeping the mailpiece in the automated mailstream.

As the technology for computerized resolution of addresses improves, the percentage of mail requiring manual keying at the RECs is reduced. Currently, the reduction of keying requirements due to improvements in computerized encoding is being offset by the addition of keying requirements for other products. Flat mail keying was moved from the plants to the RECs and is being joined by images from the APPS and the Postal Automated Redirection System (PARS).

Although these keying operations are co-located at the RECs, the keying requirements for each are different, and the REC handles them as separate operations. The Postal Service is pursuing their integration. The Universal Coding System (UCS) will replace the end-of-life image processing subsystem for letters and will provide the infrastructure to key all images on common workstations. This will increase REC productivity, as well as facilitating REC consolidation. A funding decision for development of UCS is scheduled for January 2005.

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 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 which can be used to better control operating costs.

Installation of IDS data collection servers (DCS) was completed in the 21 bulk mail centers (BMCs) during 2004, bringing the number of IDS-equipped plants to 321. Networking of BMC sorting equipment to the IDS DCSs continued through 2004. Software to generate locally useful management reports and displays was developed and is being tested in preparation for BMC

system-wide deployment. Intelligent Mail initiatives and mail tracking will increase the volume and complexity of this data. Updates of IDS software to handle these increases were developed during 2004 and are being tested.

b. Undeliverable-As-Addressed Mail

PARS automates the handling of undeliverable-as-addressed (UAA) letter mail, intercepting a portion of it in the early steps of the distribution process to reduce handling and processing costs, and improve service. The system electronically notifies mailers who subscribe to the Address Change Service (ACS) and provides hard copy notification to mailers who add an endorsement to their mail piece. Both services generate revenue. The system also automates the processing of change of address forms.

During 2004 the Postal Service completed Phase I testing and first article installation. Phase I includes comprehensive implementation of the PARS program in 49 processing plants, all RECs, and all delivery units. Additionally, a scanner will be deployed into selected Computerized Forwarding System units to automate the processing of change of address forms. PARS Phase I deployment began in August 2004 and is expected to end in December 2004.

A funding decision on the second phase of deployment, which is expected to cover most of the remaining UAA letter mail, is planned for July 2005. Approval would lead to a two-year deployment starting as early as September 2005, provided that the Postal Service can resolve outstanding issues relating to its ability to use the PARS technology developed by a contractor.

c. Advanced Facer Canceller System Doubles Detector and Ink Jet Canceller Upgrades

When mailpieces stick together on automated processing equipment, the mailpiece identification code on the back of the pair will not match the address on the front, and subsequent additional handling is required to correct the error. The Doubles Detector (DD) for the Advanced Facer Canceller System (AFCS) will reduce these associated rehandling and remote keying requirements and improve delivery performance. A contract for the AFCS-DD was awarded in June 2004. In-plant testing is scheduled for December 2004 and first article testing is planned for January 2005. Deployment of 1,086 systems will occur from February through October 2005.

The AFCS Ink Jet Canceller (IJC) system will replace the current hub and die canceling mechanism with an ink jet printer. This upgrade provides many benefits:

it is more reliable and requires less maintenance; it automates date setting and introduces a time stamp to enhance mailpiece tracking, tracing, and security capabilities; it provides flexibility in the cancellation appearance and content without the need to manufacture, deploy, and inventory new dies for each different cancellation mark, and it creates potential marketing opportunities. The AFCS-IJC contract was awarded in March 2004. In-plant testing is scheduled in December 2004 and first article testing is scheduled for January 2005. Deployment of 1,086 systems will begin in March 2005 and end in March 2006.

d. Business Mail Acceptance

The Postal Service automated the labor-intensive process of evaluating bulk mailing eligibility for work-sharing discounts. The Mailing Evaluation Readability and Lookup INstrument (MERLIN) verifies nearly all mail preparation requirements for both letters and flats. It produces all reports necessary for mailing acceptance and provides the mailer with images of preparation problems to support process improvement. Deployment of the last 105 of 1,203 systems was completed in 2004.

Another innovation is the PostalOne! system, which provides business customers with a single point of electronic access to detailed mailing, payment, quality and other postal and mailing information frequently requested. Migration of the acceptance unit and business reply user functions of the legacy Permit system into the new PostalOne! system was completed in 2004 and migration of accounts from the current Centralized Accounts Payment System to the PostalOne! system was begun.

The Postal Service also continued deploying the PostalOne! transportation management function and the Electronic Verification System. The PostalOne! Transportation Management program has deployed 105 shipping systems into customers' mail production facilities to integrate and align customer and Postal Service business processes more effectively. Under the program, transportation routings are assigned to more than 30 million trays per year.

4. Material Handling

Material handling offers a significant opportunity for technology investments to reduce operating costs through improved productivity and efficiency. Development and production activities during 2004 included equipment for flats, receipt, dispatch, and material transport operations within processing plants.

When mail is ready for dispatch from a processing facility, trays are sleeved, lids are applied to flat tubs, and strapping is applied to secure the mail during transport. The Postal Service has automated these processes. Conversely, when mail arrives at a processing facility, the strapping must be cut, and the sleeves and lids removed to access the mail for processing.

A contract option for flat tub lidding equipment was exercised for an additional 100 units that were deployed in 2004.

Development of prototype flat tub unlidding and mail tray unsleeving technologies have been completed and field-tested for operational reliability. Deployment of the unlidding and unsleeving technology will reduce costs in receiving operations and provide ergonomic benefits.

During 2004 a program was developed to procure and deploy a substantial quantity of dispatch and receipt equipment with integration into existing plant material handling systems. The Integrated Dispatch and Receipt (IDR) program was approved in September 2004. The IDR equipment and systems integration will reduce costs in incoming and outgoing dock operations, as well as receipt and dispatch operations inside processing facilities. Funding was approved in September 2004 to deploy IDR systems to 229 mail processing facilities which is planned for 2005 to 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. TOPS will plan the movement of all mail traveling on all modes (contracted and postal). TOPS is designed to perform both long-range and week-to-week transportation optimization planning and analysis. The formulation of the model was completed in 2003 and efforts in 2004 focused on synchronizing the model with the results of the logistics scanning pilot. The first outputs of the long-range planning portion of TOPS became available in October 2004. During 2005 TOPS will provide output to help reduce transportation costs.

b. 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 the Surface Air Management System and scan data from Postal Service facilities and from transportation suppliers. In 2004 SASS began reconciling payment for the air carriers using scans received from these suppliers to measure performance.

c. Breakthrough Productivity Initiative

Priority Mail Standardization

A 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. Specific focus will be placed on capturing Priority Mail flats and processing in flats operations at both origin and destination.

The Postal Service developed a Priority Mail Operations Performance Toolkit, which is available on the Breakthrough Productivity Initiative Web site, for area and field use. In 2004 this toolkit was made available to the field as a monthly and year-to-date comparative analysis tool, which can select national performance data, individual area data, or site specific data to track and monitor mail processing workhours versus volume within each of the Priority Mail operations.

F. Delivery Unit Operations

1. Delivery Point Sequencing

Today more than 13,000 postal delivery units receive their letters in delivery point sequence (DPS). These units account for more than 99 percent of all city carrier routes and 77 percent of all rural routes. Table 2-3 shows the total number of delivery points for 2004.

a. Flats Sequencing System

During 2004 the Postal Service continued developing two alternative strategies aimed at fully automating the flat mailstream: a Flats Sequencing System (FSS) and Delivery Point Packaging (DPP).

FSS would complete the automation of flat mail by sorting flat mail into carrier-walk sequence. This type of sortation is referred to as delivery point sequencing and has been used in letter mail operations for over a

decade. Presently, flat mail is sorted only to the zone and carrier level. This mail then must be sorted manually into delivery order by the carrier prior to beginning deliveries for that day. This labor intensive process would be significantly reduced with FSS.

Table 2-3 Total Number of Delivery Points* — 2004

Delivery Type	Number (millions)
City	85.1
Rural	35.0
Post Office Box Service	20.0
Highway Contract Route	2.2
Total	**142.3**

*In 2004, the Postal Service adjusted reporting of rural and highway contract deliveries to customers who have mail delivered to a Post Office Box as an alternate delivery point to a physical address. Prior to 2004, both a delivery address and a Post Office Box held by the same addressee, were included in the count of "possible" delivery points.

In addition, on rural and highway routes, the Postal Service no longer counts a vacant delivery point (unoccupied for more than 90 days) as a "possible" delivery point. These adjustments made in 2004 reduced total delivery points by 0.8 million. Accordingly, the change in delivery points is 1.0 million. The actual growth in delivery points was 1.8 million. Data is not available to adjust the number of delivery points recorded for prior years.

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.

FSS concept development was completed in 2004. Development, testing, and evaluation of prototype systems will be conducted in 2005. If successful at all stages, and if the FSS approach proves economical, a production contract could be awarded in late 2006.

b. Delivery Point Packaging

In addition to the FSS, the Postal Service has simultaneously initiated development of DPP, a program which 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 almost eliminate 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 that high-speed mail sorting and packaging equipment be able to handle the diverse range of mail characteristics consistently, reliably, and accurately. DPP concepts and methodologies were developed and simulated during 2004. Development of test bed systems will begin in 2005 and be completed in 2006. Should DPP technology prove viable and economical, it may supercede FSS development and deployment.

2. Managed Service Points

In November 2003 work was completed on integrating the Managed Service Point (MSP) program into the Delivery Operations Information System (DOIS), eliminating the existing stand-alone Web-based system.

The MSP program is intended to improve 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.

DOIS was designed to provide actionable information, enabling the delivery unit supervisor to make sound business decisions in the day-to-day operations of the delivery unit. Currently the Postal Service has approximately 7,660 delivery units and more than 11,000 individuals a day accessing this business solution.

3. Carrier Optimal Routing

The Postal Service has developed city carrier routing and travel optimization programs similar to those used by private sector delivery firms. The Carrier Optimal Routing (COR) system 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. It also reduces park points and relays. COR has completed the training phase with more than 450 personnel trained in database preparation and route adjustment procedures. The national roll out of the program began in May 2004. A new DOIS compatible version of the program was sent to field units in September 2004.

4. Delivery Performance Achievement and Recognition System

The Delivery Performance Achievement and Recognition System (DPARS) is being used to recognize performance and track progress toward improvement. DPARS is a delivery operations breakthrough productivity tool that has become an earned workhour system for city and rural carriers. In 2004 this tool

was made available at the district level of analysis. The benchmark for DPARS is based on the demonstrated performance of top quartile offices within peer groups of like-sized offices. 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 (ePUBWATCH) system is a tracking tool 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 publication watch. By completing complaint resolution worksheets, publishers can also receive assistance from one of the Periodicals service improvement coordinators. The second year in operation resulted in a steady increase in the number of registered publishers. In 2004, 14,331 complaints were posted to the database and over 25,195 electronic publication watches were monitored and completed.

6. Collection Box Management System

The Collection Box Management System will be replaced by the Web-based Collection Point Management System (CPMS). This Web-based system provides a monitoring tool for delivery unit management to ensure adherence to collection box schedules and policies. The system consists of a data collection device that scans a barcode located inside a collection box to collect time, location, and date information. The information collected by the scanner is placed in a data transfer device at the delivery unit and is then routed to the CPMS software program, which allows management to quickly ascertain the status of each collection point. In 2004 22 sites served as pilots to test the system.

7. ADVANCE Notification and Tracking System

The ADVANCE Notification and Tracking System (ADVANCE) is designed as a manual Delivery Confirmation system to meet the time-sensitive mailing needs of qualified Standard Mail and Periodicals mailers in more than 7,500 delivery units and 11,000

5-digit ZIP Code locations. In 2004, 5.8 billion mail-pieces were tracked using ADVANCE which represents a 5.5 percent increase over 2003.

8. Mail Security

Postal inspectors, in consultation with district managers, provided security and mail-screening for the Democratic National Convention in Boston, MA, in July 2004 and the Republican National Convention in New York City, NY, in September 2004.

Postal inspectors staffed communication positions at the U.S. Secret Service and Postal Inspection Service command centers. Inspectors provided protection for postal employees who delivered and collected mail near the convention sites, ensured that postal facilities in the area were secure, and helped develop response and evacuation plans in the event of an emergency. Inspectors performed mail-screening activities to protect Postal Service employees and customers from anthrax, radiation, and improvised exposive devices.

The Postal Service pursues a number of initiatives to reduce mail theft and identity theft by enhancing the security of delivery and collection equipment. One such effort has been the deployment of high security cluster box units. The Inspection Service has reported no successful mail attacks on these units, a great improvement over the thousands of attacks that occurred prior to the deployment. During 2004, 3,300 units were deployed in Phoenix. Overall, theft of mail in the Phoenix area has dropped by 40 percent.

New standards for wall-mounted, centralized, mail receptacles were finalized and published in the *Federal Register* in September 2004. Along with an improved form-factor that allows the deposit of a wider array of mail, this new standard includes improved security that prevents easy break-ins that plagued the predecessor units.

Other 2004 initiatives included security retrofits for collection boxes. One retrofit improved the lock compartment to prevent break-ins, while another placed anti-fishing kits on some 17,000 boxes to prevent removal of mail through the mail chute or mail deposit door.

In May 2004 the Hellenic Post and the U.S. Department of State requested the assistance of the U.S. Postal Inspection Service to ensure the safety and security of mail for the Summer Olympic Games in Athens, Greece. The Postal Inspection Service screened all mail destined to the U.S. Delegation. The Inspection Service also advised the Hellenic Post on general mail security procedures and protocols for the secure delivery of mail to Olympic venues and high-risk delivery points. No mail security breaches were recorded during the Summer Olympic Games.

G. Stamp Services

In 2004 the Postal Service continued to meet customers' needs and demands for postage stamps that appeal to the nation's diverse population. The Citizens' Stamp Advisory Committee (CSAC), through the Office of Stamp Services, receives approximately 50,000 proposals annually.

1. Stamp Program

The 2004 stamp program consisted of 34 issuances and 81 designs, not including semipostal stamps and reprints that remain on sale from previous years.

Works of art figure prominently, with five sculptures by Isamu Noguchi; a painting by Martin Johnson Heade: Giant Magnolias on a Blue Velvet Cloth; a Chippendale chair; an example of Navajo jewelry; 10 artifacts representing the art of the American Indian, and the popular Disney character art.

The program also celebrated sports with stamps for the 2004 Olympic Games and past Olympic champion, Wilma Rudolph. The Postal Service's Black Heritage, Literary Arts and Legends of Hollywood series continued with stamp issues, as well as stamps that honored veterans and raised public awareness of social and health concerns.

Nationwide, philatelic product sales rose from $40 million in 2003 to $49.9 million in 2004. This increase can be attributed to innovative products, including attractive pre-stamped stationery, specially designed keepsakes, and expanding sales channels, such as The Postal Store on *www.usps.com* and the USA Philatelic catalog.

2. Production Activities

In keeping with the Postal Service's mandate to manage costs, private stamp printing contracts were awarded to three private suppliers. Because of the competitive nature of these contracts, production costs for postage stamps dropped from a high of $135.5 million in 2001 to $88.5 million in 2004.

Overall stamp production increased from 35.4 billion in 2003 to 43.7 billion in 2004. This reflects the shifting of some stamp production from 2003 to 2004 to take advantage of the new pricing. Despite an increase in stamps produced, 2004 manufacturing costs decreased $7.8 million from 2003.

In 2004 the Bureau of Engraving and Printing produced seven billion stamps at a cost of $22.3 million. The final year of stamp production for the Bureau of Engraving and Printing will be 2005.

3. Stamp Fulfillment Services Activities

During 2004 Stamp Fulfillment Services (SFS) filled 1.9 million customer orders totaling $180.2 million in revenue. Sixty percent of the orders shipped, which generated 56 percent of the revenue, were placed via the Internet. The remaining 44 percent of order volume was generated via USA Philatelic catalog mail orders (23 percent) and 800- STAMP-24 telephone orders (21 percent). In addition, SFS processed 134,000 personalized envelope orders, which generated $66 million in revenue. Total revenue flow at SFS for stamp sales, envelopes, consignments, and product sales was $947 million in 2004.

H. Licensing and Online Services

In August 2004 the Licensing and Online Services functions were merged. The mission of the Licensing and Online Services program is to leverage the Postal Service's intellectual property as a viable resource for consumer products and services developed by licensed commercial firms. Since these licensees' products are widely available in commercial channels, the Postal Service's traditional brand attributes are reinforced, and the Postal Service realizes additional revenue from the sale of these products. This mission supports the Postal Service's *Transformation Plan*, which calls for the creative leveraging of postal assets in order to increase revenue.

While the Postal Service has many assets, few are as "liquid" as postal intellectual property (IP). Postal IP ranges from the art displayed on postage stamps to the shape and image of rural mailboxes to the familiar blue collection boxes. It is the role of the Licensing and Online Services Group to optimize the total value of these assets.

Online Services maintains two critical brand protection services associated with online stamp sales: BrandVault and The Postal Store. BrandVault is a Web-based archival system that contains all visual intellectual property, such as corporate signatures, corporate logos, and the Postal Service's graphic guidelines. This system includes secured, digital files of stamps, providing a complete reference for each image, which helps maintain the proper use and reproduction of stamp images. The Postal Store provides customers with a secure and convenient Web-based channel to purchase stamps, as well as an ever expanding consumer product line, including licensed merchandise. The Postal Store also accepts preorders and back orders; provides alternate product suggestions when a first choice is unavailable, and accepts subscriptions.

An enhanced corporate licensing policy, along with frequently asked questions about licensing with the Postal Service, is available on the Web site at *http://usps.com/communications/organization/licensing.htm*. The Postal Service will continue to seek licensing opportunities while showcasing its current collection.

I. Service and Market Development

1. Commercial Sales

During 2004 the Sales organization improved its ability to help more commercial customers understand how to meet their mailing objectives. A new vision statement was developed — All customers consider Postal Service solutions for their business and personal needs, resulting in a profitable, long-term, business relationship — resulting in a common focus throughout the organization.

Sales also instituted a Platform for Change, which became the foundation of the Sales organization, and includes:

- Expanded coverage.

- Raised expectations.

- Standardized business processes.

- Focus on training and development.

- Improved Headquarters' support and deployment of field strategies.

- Establishment of monthly business reviews between Headquarters and the field.

- Targeted activities to improve communications.

The platform was designed around people, process, and performance to increase the Postal Service's ability to meet customer needs and win their business.

Sales has a one-to-one relationship with about 50,000 large, sophisticated customers. Other emerging accounts are identified from the mid-market; these new growable accounts are transitioned for sales management. These business customers use the

Postal Service as a partner to facilitate their interaction with the marketplace.

In 2004 the Postal Service invested in sales skill training and development, with particular focus on sales management, sales effectiveness, and sales skills.

2. Business Service Network

The Business Service Network (BSN) provides customer service to the largest business customers of the Postal Service, which represent more than $38.7 billion in total revenue for National and Premier Accounts, or 56.2 percent of 2004 total revenue. In 2004 the BSN focused on enhancing technology, driving user adoption of its customer relationship management (CRM) application, improving data quality, and increasing customer satisfaction. As a result, 9.4 percent more customers contacted the BSN in 2004, and there was more than a 50 percent increase in the number of customers using the online service. BSN results in 2004 exceeded the prior year's Customer Satisfaction Index for National and Premier Account customers.

The BSN also trained 405 external customers and 438 customer support team members to enter, monitor, and/or respond to customer service requests. Employees were challenged to improve the quality of data in the BSN information system, which resulted in a 30 percent improvement in customer satisfaction.

3. Customer Relationship Management

In 2004 the Postal Service focused on two primary CRM opportunities: improving the quality and increasing the quantity of customer information to drive outstanding customer interactions and improving the customer experience by making it easier for customers to do business with the Postal Service. Throughout the year the customer ID service was integrated with business applications and databases containing customer information. The integration process provided information on data quality that drove improvements in the completeness and accuracy of customer data.

The second opportunity was the deployment of a major addition to the Customer Gateway. This one-stop-shop for Postal Service information and access to systems such as PostalOne!, Mail Tracking and Reporting, and the Integrated Business Service Network was launched in late 2002. In 2003 a new customer registration service was implemented to provide large customers with a single logon ID for access to the services offered through the gateway. By 2004 this service gave customers the ability to manage access to selected, online Postal Services.

4. Marketing Technology Development — Small and Medium Businesses

In 2004 the Customer Care Dialog program mailed five issues of the Preferred Access Business Advisor and a CRM piece. These mailings promoted the value of mail, provided information on postal mailing options, and drove customers to *www.usps.com* for more information. A Preferred Access Customer Outreach was a test in four cities to interest high prospect, small and medium businesses to sign up for a subscription series of locally managed workshops on mail-related issues. These tests were successful. The Postal Service also sponsored a Small Business School — a Public Broadcasting System television series that aired weekly on some 200 channels and reached 900,000 small business customers. The series provided information on direct mail, Package Services and other postal solutions that meet the needs of small and medium businesses.

5. Customer Connect

The Customer Connect program leverages the carrier's relationship with customers in an effort to increase revenue through lead referrals. Thus far, there are 1,562 participating offices across 78 districts (approximately 15–20 offices per district).

Carriers with 10 or more businesses on their routes are encouraged to submit two leads per month. Currently Priority Mail service is being emphasized. Customer leads with a potential of one to 10 packages per day are contacted via telesales by an assigned district coordinator. Customer leads with a potential of 11 plus packages per day receive a personal visit from a sales representative. Customers receive follow-ups by sales personnel within four days of leads being submitted by the carrier.

J. Retail Programs

Most Americans buy and use postal products and services through retail outlets, i.e., Post Office locations. Each day the vast majority of the more than seven million Americans who visit Post Office locations and contract postal units simply buy stamps, mail packages, and collect mail from a Post Office Box. More Americans, however, are now obtaining stamps or other Postal Service products through alternate channels — by mail, online, from an Automated Postal Center, traditional vending equipment, and through more than 40,000 consignment locations, including ATMs, supermarkets and other authorized agents.

The value of retail space continues to be explored through the Lobby Asset Valuation model, which segments Post Office locations, 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.

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 Box receptacles. The major customer segments for retail are small businesses and consumers (customers using the mail for personal, rather than business reasons). Total retail revenue for 2004 was $17.2 billion.

Approximately 85 percent of all retail revenue and 96 percent of all retail operating expenses accrue from the Postal Service's classified Post Office locations and contract unit full-service options. They are augmented by sales through alternate access channels.

To provide convenient, one-stop shopping for postal customers, many Post Office locations offer additional products and services, including Official Licensed Retail Products (with items added specifically for small business customers), passport photos, phone cards, and an expanded line of ReadyPost shipping supplies. New ReadyPost merchandise displays, including both the standard product line and new decorative boxes, were deployed in 2004 to 3,839 offices.

2. Building Customer Awareness

Many postal customers are not familiar with some of the Postal Service's basic services and products. Addressing this need for basic product information is central to retail marketing activities. New continuity menuboards for the basic product offering were deployed in June 2004 to all Post Office locations. These were supplemented by quarterly signage updates. The concept of Priority Mail bundles (Priority Mail combined with Delivery Confirmation service, Signature Confirmation service, or Insurance) was introduced on signage in October 2003 and had a positive impact on sales of these special services. Additional signage in support of Passport application acceptance also boosted sales of this key retail service to $111.2 million, a $20 million increase over last year. New merchandisers provided more customer access to our ReadyPost packaging products increasing sales to $91.1 million, a $9.9 million increase.

3. Point–of–Service One

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

POS ONE is replacing integrated retail terminals in the larger offices with state-of-the-art hardware and software, along with support services and training. Customers receive information about available products and services and have immediate access to options and cost data to 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 access to performance data that enables them to make more informed decisions regarding day-to-day operations.

POS ONE is currently in place at 14,143 sites and provides detailed transaction data for approximately 90 percent of walk-in revenue for postal services. Phase lll deployment, which expands POS ONE to approximately 15,000 total sites, is scheduled for completion in February 2005.

POS ONE also enabled the development and implementation of the Retail Data Mart (RDM). RDM provides access to critical business information used for operational planning, sales, and market analysis. Transaction data about products and services are available for analysis, strategy development, and planning.

4. Retail Operations

With the activation of the RDM, reports and information critical to making optimal business decisions at the unit level are available in POS ONE offices.

Using an eLearning (distance learning) platform, training was developed for all POS ONE front-line supervisors, district and area support managers. The training focuses on the skills required to use the RDM, best practices, and actions required based on performance measured in a few key reports.

The RDM course represented the first broad application of eLearning for a significant number of field employees. The use of eLearning has allowed the Postal Service to deliver training at the lowest cost, while

providing the capability to match training evaluation to actual performance on the job tasks. This allows for monitoring performance against training and enabling decision making that positively impacts operational efficiency and revenue.

a. Retail Access

The Retail Optimization Access Management System is a geographical information system tool used to identify current postal and non-postal retail locations and to provide decision support in the placement of alternate access retail channels.

The Web-based application can generate demographic reports, market profiles, and retail expenditure reports, as well as calculate driving times. This information will assist in improving effectiveness in managing the retail network and optimizing the placement of alternate retail access locations. Deployment to the field was accomplished in May 2004.

b. Web Box Activity Tracking System

The Web Box Activity Tracking System (WebBATS) is a Web-enabled centralized database system that improves access, speed, and reliability of tracking Post Office (P.O.) Box service. 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. Online rentals and renewals will be more cost effective than retail window transactions. Migration of all sites currently on WinBATS (Microsoft Windows-based) was completed in September 2004. The non-WinBATS sites will be migrated by September 2005.

5. Self Service and Alternative Access

During 2004 the Postal Service focused on improving the performance of vending equipment, deploying the Automated Postal Center, and increasing access points for consumer stamp purchases. Approximately 4 percent of retail revenue is generated from self-service vending. The Postal Service continued to emphasize increasing consumer awareness of alternative locations for stamp purchases.

a. Automated Postal Center

The Automated Postal Center is a low cost alternative to the retail counter that provides customers with convenient access up to 24 hours a day, seven days a week to the postal products and services customers most frequently use. Deployment began in April 2004. All 2,500 units were installed by the end of November in postal locations.

b. Stamps by Mail

Stamps by Mail service allows the public to purchase stamps through the U.S. Mail. In 2004 five percent of total retail revenue purchases were placed through the Stamps by Mail fulfillment channels. In 2005 the Postal Service will continue to communicate stamp purchase options so the public has access to postal services when, where, and how they want them.

c. Stamps on Consignment

The Postal Service offers a convenient Stamps on Consignment program, which makes stamps available through participating retailers, such as supermarkets, drug stores, and convenience stores, as well as automated teller machines through many financial institutions. Approximately five percent of retail revenue is generated from the Stamps on Consignment program.

d. Contract Postal Units

Contract postal units and other commercial agents and partners allow the Postal Service to reach customers at times when a trip to a Post Office facility is not possible or convenient. Typical locations for these units are shopping centers and local malls. The extended evening, weekend, and holiday hours of these nonpostal facilities provide Postal Service customers with expanded access. Research indicates that customers prefer to combine errands at one location. Implementation in convenience stores has begun in the Southeast Area, with expansion expected in 2005 especially in high growth locations.

e. Internet Channel: www.usps.com

The impact of the Internet has transformed communication and business processes and created opportunities for the Postal Service to improve efficiencies, enhance relationships, and develop new products and services. In 2004 the Postal Service continued to utilize this technology to provide products and services that meet the varied needs of business and consumer customers.

The Postal Service's Web site, *www.usps.com*, has grown into a vital channel, streamlining customer access to core products, information, and services. The continued growth of online revenue transactions, cost avoidance, and other indirect transactions has driven

the total channel value to an estimated $591 million in 2004, an increase of 49 percent above 2003.

Much of the growth can be attributed to efforts to make shipping online easier. New Web initiatives, such as Carrier Pickup online notification and the availability of insurance online, are contributing to this success.

In 2004 *www.usps.com* received about 258 million visits, an increase of 32 percent over 2003. According to Nielsen/NetRatings, the Postal Service Web site ranked as the top brand among U.S. government sites.

In addition, *www.usps.com* won numerous prestigious awards including the 2004 eGov Pioneer Award for Best Practices in Web site Governance, the 2004 Grace Hopper Award for Innovative Technology Implementation, and recognition by the U.S. Geological Survey as one of the "Top 10 Best Managed Federal Government Web sites."

f. Postage Technology Initiatives and Secure Electronic Services

PC Postage technology and developing postage meter technology make it easier and more attractive for customers to mail with the Postal Service by integrating services such as insurance and confirmation services with postage payment, and by making it easier to print shipping labels, and track and account for postage expenses.

Accomplishments for 2004 include initiatives targeted at expanding use among online and small business customers. New trends in digital technology resulted in smaller postage meter designs that offer features particularly attractive to small and medium businesses. PC Postage technology, introduced originally as stand-alone software products, is now offering enterprise solutions and enabling authorized postage payment for Web-based services, such as eBay and the Postal Service online shipping label option, Click-N-Ship.

Expansion of access and enhancements is accomplished by working with commercial providers to reduce or eliminate Postal Service capital investment, thus providing opportunities for cost savings, cost avoidance, revenue generation, and mail security. Innovations of Internet postage and the Information Based Indicia provide the technology platform for Intelligent Mail service, which enhances the value of mail and moves toward a digital network, including expansion of revenue protection.

During 2004 the Postal Service approved 22 concepts for new meters and PC Postage software features or enhancements. Significant among these were concepts involving further expansion of postage payment integration for enterprise solutions, online auctions and Web-based shipping solutions. An Internet-based platform approved for national distribution was the supporting infrastructure for the eBay initiative. Further, a Postage Development Kit (PDK) was approved in May 2004. The PDK allows customers to gain access to PC Postage functionality from within their own application via a simple ActiveX application programming interface. Four major enterprise customers are expected to complete implementation this year. Additional technological advancements include the first shipping system for the Macintosh computers, the integration of customs forms, and the first market test of a form of customized PC Postage—a product concept recommended in the July 2003 report of the President's Commission on the U.S. Postal Service.

As of July 2004 growth in mid-range and small business meter population increased 17 percent and 5 percent, respectively, over the same period last year. In the first nine months of 2004 revenues from PC Postage service increased 56 percent over the same period last year.

K. Pricing and Classification

Pricing and Classification has worked to refine and communicate the pricing strategy presented in the *Transformation Plan*. The underlying principles of the Postal Service's pricing strategy (customize rates and requirements for large and sophisticated customers, simplify rates and requirements for retail and small business customers, and encourage efficiency) demonstrate the overarching premise that pricing should reflect the value derived by customers from their use of postal services.

The strategy is reflected in several initiatives undertaken by the Postal Service in recent months, such as new negotiated service agreements (NSAs), the Domestic Mail Manual (DMM) redesign project, Priority Mail flat-rate box, Periodicals co-palletization, and Repositionable Notes.

1. Negotiated Service Agreements

During 2004 the Postal Service continued to pursue NSAs, first approved by the PRC in 2003. Where appropriate, the Postal Service has explored agreements that are functionally equivalent to the Capital One precedent. The Postal Service is also pursuing new baseline agreements as part of a gradual, continuing expansion of NSAs. Since the implementation

of the Capital One NSA, the PRC issued criteria on how both functionally equivalent and baseline NSAs will be handled in the future. NSAs provide customized pricing to customers in exchange for increased mail volume, increased revenue, or reduced Postal Service costs.

In June 2004 two additional NSAs were filed with the PRC for Bank One Corporation and Discover Financial Services. The Board of Governors approved the NSA with Discover Financial Services in October (see sections I.D.3 and I.D.4).

2. Domestic Mail Manual (DMM) Redesign Project

The Postal Service continued efforts to redesign the DMM. The Chinese-language version of the DMM 100, A Customer's Guide to Mailing, was released in 2004. In addition, both a large print version and an audio version of the English-language DMM 100 were developed. The DMM 200, A Guide to Mailing for Businesses and Organizations, received a 2004 APEX Award of Excellence from the Association for Publication Excellence.

Work began in 2004 on the third volume of the series, the DMM 300, Domestic Mail Standards of the United States Postal Service, which will structure the mailing standards around the ways larger business mailers use the mail. Information will be organized according to the type of mailing (retail or discount), the shape of the mailpiece (letter, flat, or parcel), and what mailing tasks must be accomplished (paying for postage or obtaining a permit). Besides reorganizing the information to better serve mailers, users will find new navigational aids, new charts and illustrations, and a new numbering system. The DMM 300 will be released in 2005.

3. Priority Mail Flat-Rate Box

In June 2004 the Postal Service filed a request with the PRC to implement a two-year experiment for flat-rate pricing of a new Priority Mail box. This box is available in two shapes, each with the same cubic capacity and will be rated at $7.70, regardless of actual weight or destination of the parcel. This allows customers to determine shipping costs in advance without the need for scales or zone-based rate charts. The Board of Governors approved this experiment in October, 2004 (see Chapter I.D.2) and implementation began on November 20.

4. Periodicals Pricing Test

In 2004 the Postal Service filed a request to expand an ongoing Periodicals pricing test, which provides an incentive for small publications to combine their mailings on pallets and drop them closer to the point of delivery. The expansion encourages mailers of high-editorial, heavy weight Periodicals pieces to participate in the test. It is expected that this kind of pricing will become more important with the predicted growth of smaller, more specialized publications (see section I.D.1).

5. Repositionable Notes

In July 2004 the Postal Service filed a request with the PRC to test prices for Repositionable Notes placed on the outside of mail. Repositionable Notes provide a complementary method for First-Class Mail, Periodicals, and Standard Mail users to deliver messages to their customers and generate higher response rates (see section I.D.10).

L. Technology

The Information Technology (IT) organization provides the Postal Service with an efficient, flexible, secure, and accessible information infrastructure. By standardizing, simplifying, and centralizing information hardware, software, and processes, IT supports both current and future business solutions that serve customers and employees and enable the Postal Service to remain competitive in the marketplace.

1. Advance Computing Environment/ Upgrading the Infrastructure

IT has established a modernized Postal Service distributed computing infrastructure. The Advanced Computing Environment (ACE) initiative was completed in 2004, ahead of schedule and under budget. The ACE model supports the following features:

- ■ A standard suite of hardware and software products for all users.

- ■ Efficient and responsive remote help desk support.

- ■ Rapid deployment of software enhancements, including security protections against virus intrusions and network disruptions.

- Rapid delivery of new products and services.

- Reduced development, maintenance, and support costs.

The new ACE model provides IT managers with more efficient operational oversight through central hosting of applications. Standardizing these applications allows the organization to streamline application management procedures and future system integrations. In establishing the new model, 147 national applications were converted to ACE and 574 local applications were retired or converted. More than 130,000 employee workstations were migrated to ACE and some 12,000 servers were removed from field sites.

Through ACE more than 2,000 unregistered Web sites, commercial off-the-shelf products, and non-ACE related items were identified in use in the Postal Service system. IT then either consolidated or eliminated these items from the system. This initiative will be ongoing, as will be the cost savings that are expected to be generated.

In 2005 IT will focus on:

- Expanding governance processes to clean up inconsistencies and to ensure infrastructure security and return on investment.

- Planning for new features and software upgrades.

- Eliminating unauthorized software products from the Postal Service system.

- Continuing to upgrade applications to a Web-based architecture.

2. Information Technology Security

The Postal Service maintained and measurably enhanced the security of its computing environment in 2004 through several significant initiatives.

IT continued to educate staff and evaluate the security of existing systems. The security of more than half of all systems that were assessed as critical and/or sensitive was certified. At the end of 2004, 57 percent of critical applications had compliant recovery plans in place. The security of computing technology was enhanced at more than 300 Postal Service mail processing facilities by providing an additional layer of protection to secure this core business area from internal and external threats and by hardening, or restricting, the services of computing devices in use at those facilities.

To protect the infrastructure from increasing external efforts to compromise Postal Service information resources, IT monitors and guards against intrusion attempts through the use of 5,000 sensors. In 2004 these devices scanned more than 13 million Internet e-mail messages and prevented hundreds of thousands of viruses and harmful e-mail messages from entering the system each month. Postal Service business partner connections and the Postal Service's own remote connectivity environment were also secured.

3. Universal Computing Connectivity

The Universal Computing Connectivity initiative will provide always available connectivity to the Postal Service computing environment for Postal Service managers and employees whose jobs require such access. The program involves the development of a system-wide network that combines voice, data, and video in a single design.

The Postal Service recognizes that new advanced information services will be necessary to meet new or changed requirements, to improve performance and reliability, and to reduce operating expenses. To ensure that the Postal Service will continue to employ current telecommunication services, IT awarded the Universal Computing Connectivity contract in October 2004. Under the contract, all telecommunication services and features that will be available to the Postal Service shall evolve and be increased, enhanced, and upgraded as changes take place in the telecommunications industry.

In 2004 the infrastructure of the BlackBerry system was enhanced and expanded. This wireless communications system provides remote communications capability to more than 4,000 Postal Service managers and Continuity of Operations team members, even when Postal Service facilities are without power or shut down. The BlackBerry system now includes additional functionality and twice the coverage area. By early 2005 the system will have an end-to-end remote administration capability.

In 2004 the bandwidth at more than 6,000 locations was upgraded to improve system performance when employees are connected to the network. An upgrade of 2,700 local area networks was implemented to improve service.

4. Enterprise Data Warehouse

The Enterprise Data Warehouse (EDW) is a major information asset of the Postal Service. Initiated as a repository for key retail information and transactions, EDW is now the central source of information on retail, financial, and operational performance.

During the past year EDW has grown from use by a few hundred employees generating approximately 600 reports per week to use by some 3,000 employees who are now creating more than 40,000 reports per week. To manage this growing data environment, to assure the business value of EDW initiatives, and to guarantee the consistency and quality of its data, an EDW governance infrastructure was created in 2004. Recent improvements in the efficiency of frequently executed reports, as well as a planned upgrade to the EDW infrastructure, will enable IT to meet the challenge of EDW's rapid growth and institutionalization.

New data sources continue to be added to EDW, focusing particularly on systems that manage the movement of mail. In 2004 Delivery Confirmation data was added and plans are underway to add other sources, such as International Mail.

M. Intelligent Mail

In 2003 the Intelligent Mail and Address Quality (IMAQ) organization was established to focus efforts in moving the enterprise toward an Intelligent Mail system. This system envisions collecting information about mail that will allow the Postal Service to leverage the information to influence mail processing and delivery and allow customers to leverage the information to better serve their business needs.

The Intelligent Mail Vision is:

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 are: to uniquely identify mail and its aggregates (i.e., OneCode Vision for mail in trays or other containers), develop and deploy an enabling infrastructure, and enhance address quality.

1. OneCode Vision

Under the OneCode Vision strategy mailpieces and larger unit loads of mail will be uniquely identified with a code that enables end-to-end process tracking and full visibility. The OneCode Vision strategy will create one distribution code per mail type and aggregate that will also encompass or point to all relevant services — such as address change requests and Delivery Confirmation service.

To achieve the OneCode Vision strategy the Postal Service, through standardization and consolidation, is minimizing the number of codes. 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. During 2004 the Board met regularly to consider new codes that were proposed, including those described below.

a. Unique Identification for Letters and Flats

The Postal Service currently uses a combination of the Postal Numeric Encoding Technique (POSTNET) sorting code and the Postal Alpha Numeric Encoding Technique (PLANET) code to identify pieces for Confirm service. The maximum length of a PLANET barcode is 13 digits, which severely limits the mailer's ability to identify each mailpiece. A draft 4-state barcode specification was developed in 2004 to provide a standard framework for encoding information for multiple services and routing. It has about 2.5 times the information carrying capacity of a PLANET barcode. The specifications, along with software and font to encode the 4-state barcode, have been made available to mailers for testing and evaluation and to solicit input about transition issues mailers would face.

Development of the capability to decode the 4-state barcode on mail processing equipment is discussed in section II.M.2.

b. Unique Identification for Parcels and Bundles

In January 2004 the Postal Service implemented the Code 128 standard barcode for Delivery Confirmation service and parcel sorting codes. This code supports concatenating (merging) the parcel identification code with the sorting code in a single barcode.

The IMAQ organization is working to employ a standardized shipping label (SSL) for parcel labels on Postal Service platforms such as Click-N-Ship, the Automated Postal Center (APC), POS ONE, and integrated retail terminals (IRTs). The SSL is currently being produced on Click-N-Ship and the APC. During the next year IMAQ plans to begin working with Package Services, Address Management, and external labeling software vendors to encourage the mailing industry to adopt the SSL format.

c. Unique Identification for Unit Loads

In 2003 an enhanced distribution label (EDL) was developed to provide identification for trays, flat tubs and sacks. Detailed specifications for EDL and two other transitional labels were completed and formally adopted in 2004. A major effort in 2004 was the development of the code generation infrastructure, which is described in section II.M.2. The EDL is a critical component in the Surface Visibility strategy.

2. Enabling Infrastructure

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

a. Code Generation and Capture Infrastructure

In support of the initiative to adopt a 4-state barcode for encoding routing and tracking information on letters and flats, additional software was developed in 2004 for the wide field of view (WFOV) camera to decode the 4-state barcode. The WFOV camera is being deployed on all letter and flat mail automation equipment. Prototype testing of the WFOV camera's capability to decode the 4-state barcode has been completed, with live mail testing expected in early 2005.

Modifications to PARS and other related systems that process mail which is undeliverable-as-addressed (UAA) or requires forwarding to read Address Change Service related data encoded in the 4-state barcode, began in 2004. Testing is expected in 2005.

To support the enhanced distribution label, an Automatic Tray Label Assignment System (ATLAS) was developed to coordinate all activities involved with the creation, distribution, printing, and maintenance of the EDL. Batch printing of EDL by postal personnel and customers is supported by ATLAS. ATLAS will replace the Postal Service's current Passport label production system and provide the capability of producing labels and/or submitting label orders online. In addition, a component of ATLAS called the ATLAS software "wedge" is being developed for mail processing equipment that supports machine-side, on-demand printing of EDL tray labels. Pilot testing of ATLAS will take place in 2005. The printers used to produce tray labels will also be replaced.

A new model printer, Microcom 426, offers higher print speed and quality to support EDL production. In 2004 a strategy to replace aging printers as they are retired with new printers was developed. Extensive testing is being conducted to assure that the 426 printers will function with existing software. Deployment of the new printers will begin in conjunction with the pilot testing of ATLAS in 2005.

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. The LAN is the conduit for downloading ZIP Code directories and sort plans to mail processing equipment, moving images of individual mailpieces for ZIP Code resolution, and moving operating and mail tracking data to computer servers for subsequent processing. Due to the increase in scope and sophistication of automation, these LANs need to be replaced.

In 2004 the Postal Service completed deployment of the Mail Processing Infrastructure (MPI) for 62 mail processing and distribution centers. The MPI uses a flexible, wired infrastructure known as structured wiring. It provides the highest reliability, scalability, and manageability at the least cost. The Board of Governors approved additional funding in 2004 for deployment to 108 more facilities, which include 100 plants, six remote encoding centers, and two administrative centers. Phase II of MPI deployment began in 2004 and will be completed in 2005.

Handheld, mobile data collection devices are essential elements of an Intelligent Mail system. The Postal Service deployed its first generation of 342,000 mobile data collection devices (MDCD) starting in 1999. In 2004 additional features needed to support the Intelligent Mail vision were identified. A supplier was selected to provide new scanners as part of the Intelligent Mail Data Acquisition System (IMDAS). Funding was approved for full IMDAS deployment in November 2004.

3. Address Quality

The Postal Service and its customers depend on the completeness, accuracy, and currency of address information in every aspect of business functions, including list management, mail preparation, and mail processing and distribution. Poor quality of the delivery information 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 the Intelligent Mail strategy.

As the Postal Service pursues increasing levels of automation to control cost and improve services, the importance of address quality also increases. The Postal Service is aggressively working to 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 its mailing lists and postal code generation software.

a. Move Update Implementation

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

1. National Change of Address Linkage System

The National Change of Address Linkage System (NCOALink) 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. In 2004 the Postal Service implemented a new NCOALink technology which provides a more secure method of matching NCOA records. In 2004 238 billion address records were processed by NCOA vendors.

2. Address Change Service

Address Change Service (ACS) provides electronic Change of Address (COA) information or reason for nondelivery to participating customers. Each electronic notification costs $0.20; the hard-copy rate is $0.70. However, since ACS fails to catch all eligible mailpieces, participation in the ACS does not completely eliminate the provision of manual address correction notifications. In 2004 243.6 million ACS transactions were processed.

3. *FASTforward*

FASTforward is a licensed computer system containing *FASTforward* name and address matching software and the COA database. *FASTforward* technology may be used in one of two ways:

Multiline Optical Character Reader (MLOCR) — the 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. In 2004, 4.7 billion records were processed by *FASTforward* MLOCR.

Mailing List Correction — this service allows *FASTforward* licensees to update computer-based name and address mailing lists electronically prior to the creation of the mailpiece. In 2004, 33.7 billion records were processed through *FASTforward* list correction.

4. Alternative Methods

An 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, more commonly known as the 99 Percent Test, requires that a mailer provide 100 percent of an electronic version of an address list to the Postal Service to be matched against Change of Address information. Files tested may only contain 1 percent or fewer address changes.

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

b. 100 Percent Database Quality

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, Address Management is making progress toward the goal of providing a 100 percent accurate Address Management System (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 in preparation of 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 routes in 41 districts in 2004.

c. Address Quality Improvement

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

1. Coding Accuracy Support System

Coding Accuracy Support System (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 5-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 evaluation of the accuracy of address-matching software programs in three areas: ZIP+4 delivery point coding, carrier route coding, and 5-digit coding. After achieving a minimum percentage of accuracy, address-matching software packages are certified by the Postal Service.

2. Delivery Point Validation

Delivery Point Validation (DPV) provides the highest level of address accuracy checking. In a DPV process, the address is checked against the AMS data file to ensure that it exists as an active delivery point.

3. Address Element Correction

Address Element Correction (AEC) service corrects addresses that could not be matched to the 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. It also produces a diagnostic report about the mailer's list management practices. The current electronic service resolves, on average, 31 percent of the previously unmatched addresses. More than 12.5 million addresses were processed in 2004 with 3.9 million addresses resolved.

4. Multiline Accuracy Support System

The Multiline Accuracy Support System (MASS) technology is an extension of CASS software. That tests the quality of address matching occurring on MLOCR equipment and direct-view encoding stations. MASS technology allows vendors and mailers to test their machines and, after achieving a minimum percentage of accuracy, be certified by the Postal Service.

5. Locatable Address Conversion System

The Locatable Address Conversion System (LACS) technology enables business mailers to update their rural-style addresses electronically with new, locatable city-style addresses in areas that are experiencing 911 emergency response address conversions. There are currently more than 5 million converted addresses in the LACS file. The Postal Service licensed 13 firms to assist mailers in updating their address records or to perform the matching service for business mailers. LACSLink was introduced in September 2004 to provide more secure technology for providing LACS service.

6. 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 five days, the electronic service assists walk sequence mailers in updating their address lists in an efficient and time-saving fashion. In 2004 more than 12 million addresses were processed for 310 customers.

d. Change of Address Service

1. Internet Change of Address

Internet Change of Address (ICOA) service, available through *www.usps.com*, offers customers the ability to change their address via the Internet. For security, customers must use a credit card to authenticate their identity; they are charged a $1.00 credit card verification fee. The application standardizes and adds ZIP+4 codes to the old and new address using the Postal Service database and Delivery Point Validation (DPV). In 2004 the site introduced special offers on move related products and services through view and print coupons. It offers moving tips and information on government services. This initiative, also known as MoversGuide Online, is a part of the Strategic Alliance with Imagitas. In 2004 some 2.7 million change of addresses were changed electronically using ICOA.

2. Telephone Change of Address

Telephone Change of Address (TCOA) service, which was deployed in 2004, allows customers to change their addresses and have their mail forwarded via the Postal Service call centers. For security, customers must use a credit card to authenticate their identity; they are charged a $1.00 credit card verification fee. The TCOA function, a part of the call center application, standardizes and adds ZIP+4 Codes to the old

and new address using the Postal Service database and DPV.

3. Customer Notification Letter and Move Validation Letter

In April 1996 the Postal Service implemented a process to circumvent the fraudulent submission of Change of Address orders. When a customer submits PS Form 3575, Change of Address Order, a move validation letter is mailed to the customer's old address. This letter alerts the resident that a forwarding request has been made. After the individual moves, a customer notification letter (CNL) is mailed to the new address. Both letters include details of the COA order, providing customers an opportunity to verify the COA information. If a potentially fraudulent situation exists, the customer is instructed to contact the local Post Office location for assistance. There is also information on how customers may notify others of their new address, and a reminder to register or re-register to vote. Nearly 48 million letters were mailed in 2004.

e. Certification and Information Services

In addition to address quality services, the National Customer Support Center (NCSC) provides a variety of services to support customer preparation of mail. The Barcode Certification program certifies the ability of hardware and software to produce barcodes that meet automation requirements. The Presort Accuracy Validation Evaluation (PAVE) program evaluates presort software and determines its accuracy in sorting address files according to the Domestic Mail Manual (DMM) standards. The Rapid Information Bulletin Board Systems (RIBBS) provides online access to a variety of information, including DMM labeling lists, certified vendor information customer support rulings, and weather and natural disaster condition reports.

N. Financial Management

1. Activity-Based Costing

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

In 2004 ABC converted to a monthly reporting format, and the model was expanded to include seven new activities and three new maintenance cost cat-

egories. A key objective during 2004 was to refine ABC reports to better meet user needs. As a result, several new reports will be made available to managers in 2005.

A bulk mail center ABC model has been developed and will be piloted in 2005.

2. Financial Reporting

In 2004 the Postal Service further enhanced its financial reporting and transparency. As of the first quarter of 2004, the Postal Service has voluntarily complied with the Securities and Exchange Commission (SEC) financial reporting requirements to the extent that those requirements reasonably can be applied to a non-publicly traded, government-owned entity with a breakeven mandate.

In 2004, Postal Service quarterly reports conform to SEC Form 10-Q type reporting requirements and includes an enhanced management discussion and analysis section, with business segment reporting by major product and function and expanded financial statements.

Since October 2003, when the Postal Service changed from accounting period to monthly reporting, the quarterly reports have been aligned with traditional calendar quarters. This facilitates comparison of Postal Service financial reports with those of other federal agencies and of private sector competitors. Since December 2003 the Postal Service has provided public notice of significant actions and events that could impact finances. These notices, posted on the Web site, *www.usps.com*, are comparable to SEC Form 8-K reporting.

To increase ease-of-access to financial information, the financial pages at *www.usps.com* were redesigned and expanded. These pages are now more user-friendly, and the breadth of accessible reports is greatly expanded. The Financials Web page provides traditional financial reports for both current and prior years, including: monthly reports (previously accounting period reports); quarterly financial reports; Annual Reports, and financial press releases. Additional Postal Service financial documents on the Web page include: annual Cost and Revenue Analysis reports; annual Cost Segment and Components reports; quarterly and annual Revenue, Pieces, and Weights reports; the annual Comprehensive Statement on Postal Operations, and the annual Integrated Financial Plan.

In addition to financial information provided pursuant to SEC regulations, the Postal Service also provides substantial financial information in response to PRC

reporting requirements. Examples of reports publicly disclosed on the PRC Web page, *www.prc.gov*, include: the National Consolidated Trial Balance; audit adjustment vouchers; the monthly National Payroll Hours Summary Reports; the monthly Active Employee Statistical Summary report; the monthly On-Roll and Paid Employee Statistics report; annual city and rural delivery statistics; reports by product on Billing Determinants, and a variety of additional reports addressing accrual analyses, special studies, and results of experimental product offerings.

3. Bank Secrecy Act Compliance

In order to combat money laundering and terrorism, Congress enacted a series of laws from 1970 through 2001 that 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 and amendments thereto, which have become known as the Bank Secrecy Act (BSA), further mandated 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 BSA 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 compliance efforts were further enhanced by implementing a back-office analysis system. This system supplements the Postal Service's point-of-sale efforts and is able to detect potentially suspicious activity that is not discernible at the point-of-sale due to the sophistication of some criminal activities. In 2004 the Postal Service provided further training of all sales and services associates to ensure compliance with the Act's reporting requirements.

The BSA Compliance Office reduces risk for the organization by ensuring that the Postal Service complies with all requirements of the BSA and 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 and that information must be safeguarded. To ensure that the proper balance is maintained between compliance and the public's right to privacy, the BSA compliance officer works closely with the chief privacy officer.

4. Internal Controls

The Internal Control Group (ICG) established in 2003 acts to assure compliance with Postal Service policies and processes to confirm integrity in reporting results critical to transition to and success of a more performance-based culture.

The ICG operates as an internal consultant for enterprise risk management assisting management in proactively improving processes. Internal Control analysts partner with management enterprise-wide to identify through analysis, risk assessment, and review, those internal controls that are unreliable, ineffective, or inefficient. ICG and management determine the root causes for identified deficiencies and make recommendations for improvement, providing a reasonable assurance that desired business objectives are attained.

The ICG is founded in the *Transformation Plan* and in the financial systems reforms proposed by the Committee of Sponsoring Organizations of the Treadway Commission and later embodied in the Sarbanes-Oxley Act (SOX) of 2002. The Government Accountability Office (GAO) has advocated a strengthening of Postal Service internal controls. In conjunction with the Controller's function, ICG is the program management office for voluntary compliance with those portions of Section 404 of SOX that relate to documentation and testing of controls over financial reporting.

All evaluations conducted by the ICG are to be data-based and results reported quarterly. Nearly 500 ICG field members are trained in the requirements of SOX and in methods for evaluating Risk and Control. In 2004, the Headquarters, ICG staffing was completed and consists of the manager, Internal Control Support (ICS) and a small staff of analysts.

In April 2004, Finance restructured its Financial Reporting and Control functions to better align with Transformation strategies and the transition to a more performance-based culture and, to better comply with new statutory and regulatory requirements for greater financial transparency. This new alignment pairs the ICG with Corporate Audit and Response Management (CARM). The manager, ICG, a direct report to the Chief Financial Officer, provides leadership to the CARM and ICS managers.

CARM was formed in 2002 to act as the liaison in the coordination of corporate-wide responses to all audits and inquiries of operations, policies and procedures by the Inspector General of the Postal Service and by the GAO. The CARM manager has a small staff of analysts that is supplemented by coordinators Headquarters and the field. CARM's association with the ICG will provide the group with even greater aware-

ness of risk management and heighten its ability to provide quality response to its public auditors.

5. Universal Decision Analysis System

The Universal Decision Analysis System (UDAS) will be a standardized, analytical tool that observes program management principles and addresses five project phases: concept, planning, design, implementation, and review and close-out. The plan is to test 2 projects in early 2005. This system will be used to track proposals as they are initiated and as they move through the review and approval process from project inception through implementation. If the pilot tests are successful, UDAS will be used throughout the organization for Decision Analysis Reports and will replace a variety of tools now used to plan for, and manage the work flow pertaining to decision analysis documents.

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A. Financial Summary

In order to avoid redundancy between the *2004 Annual Report* and this *2004 Comprehensive Statement on Postal Operations*, financial highlights presented here are in a condensed format. Discussion and analysis are focused on: Postal Service financial results for 2004; 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; topics of particular interest to Congress, such as appropriations. More detailed analysis of the financial results of postal operations for 2004 is provided in the Postal Service's 2004 *Annual Report*.

1. Revenue

Revenue growth in 2004 exceeded that projected in the 2004 operating plan. Revenue declined in all categories except Standard Mail and International Mail and was 0.4 percent greater than last year. Total Revenue was $69,029 million.

Total volume for the year was 1.9 percent above 2003 levels. The Postal Service has seven primary classes of mail which, when combined in the mailstream, are referred to as the "mail mix." The mix of mail has changed significantly since 2000. In 2000 the largest component of the mailstream was First-Class Mail. During the past four years First-Class Mail volume has declined 5.4 percent, while Standard Mail volume has grown 6.1 percent. The Postal Service forecasts that in 2005 Standard Mail volume will surpass First-Class Mail volume for the first time in history. The continuation in this alteration in the mail mix will lead to lower revenue in the future. Standard Mail now leads volume growth but averages only 19 cents in revenue per piece; First-Class Mail, which it is replacing in the mailstream, averages 37 cents per piece.

First-Class Mail is comprised predominantly of single-piece and workshared First-Class Mail. Continuation of a long-term decline in single-piece First-Class Mail volume underlies this trend. E-commerce and e-mail are substituting for personal correspondence and hard copy commercial transactions that formerly traveled as single-piece First-Class Mail. In 2003 the Postal Service experienced the first-ever annual decline in workshared First-Class Mail volume; this decline continued into 2004. Both major categories of First-Class Mail are now on the decline.

Despite First-Class Mail volume decline, delivery points have continued to grow. Declines in the number

Table 3-1 Total Revenue

($ Millions)	FY 2004	FY 2003	% Change
First-Class Mail	36,377	37,048	(1.8)
Priority Mail	4,421	4,494	(1.6)
Express Mail	853	888	(4.0)
Periodicals	2,192	2,235	(1.9)
Standard Mail	18,123	17,231	5.2
Package Services	2,207	2,216	(0.4)
International	1,696	1,587	6.9
Other*	3,160	3,065	3.1
Total	**69,029**	**68,764**	**0.4**

* Mailgrams, Special Services, Interest, and Free Matter for the Blind and Handicapped are included in the "Other" category.

Table 3-2 Volume

(Pieces in Millions)	FY 2004	FY 2003	Change	% Change
First-Class Mail	97,926	99,059	(1,133)	(1.1)
Priority Mail	849	860	(11)	(1.3)
Express Mail	54	56	(2)	(3.1)
Periodicals	9,135	9,320	(185)	(2.0)
Standard Mail	95,564	90,492	5,072	5.6
Package Services	1,132	1,129	3	0.3
International	844	805	39	4.8
Other*	602	464	138	29.7
Total**	**206,106**	**202,185**	**3,921**	**1.9**

* Internal Postal Service mail volume, Mailgrams, and Free Matter for the Blind and Handicapped are included in the "Other" category.

**Numbers may not add due to rounding.

Fig 3-1 Volume Change FY 2000–2004
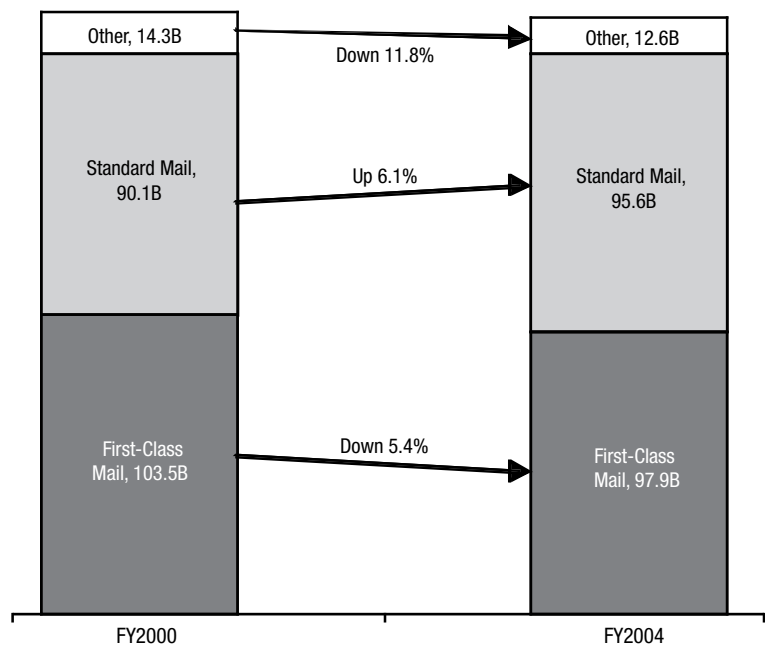
Fig 3-2 First-Class Mail Volume — Selected Components

- - - - Single-Piece First-Class Mail ——— Workshare First-Class Mail
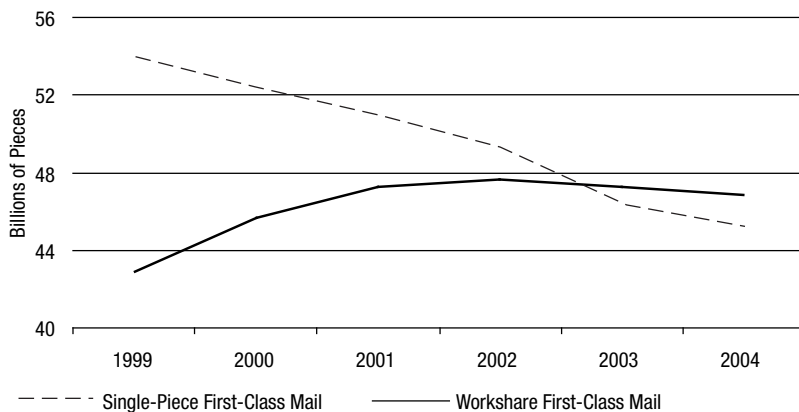
Fig 3-3 Delivery Points and First-Class Mail

■ Billions of pieces of First-Class Mail ——— Millions of Delivery Points
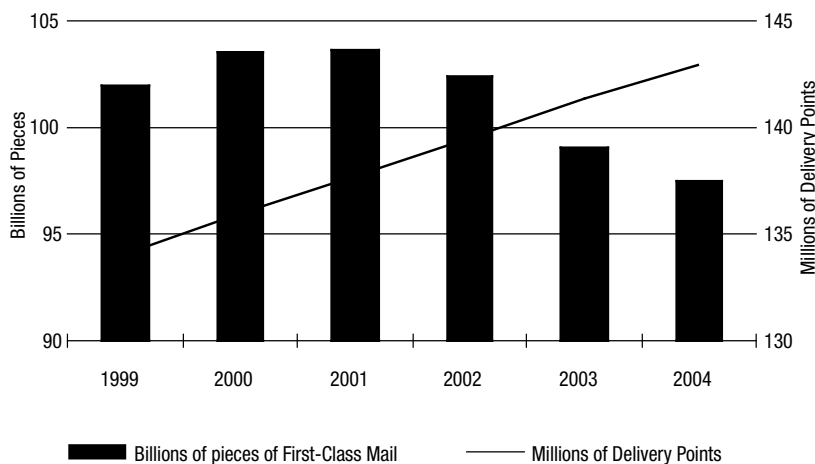
of pieces delivered per stop, combined with shrinking revenue per piece delivered, increases the burden the Postal Service must shoulder to carry out its universal service obligation. It will become ever more costly to support the infrastructure and personnel costs associated with the Postal Service's universal service obligation as these trends continue.

Mail volume growth and revenue growth are dependent on the economy, the underlying demand for postal services, and the attractiveness of competitive alternatives. Growth in economic activity, as measured by gross domestic product (GDP) and retail sales, picked up in 2003 and has continued to build in 2004, although it weakened in the second half of the year. Within the parameters of the Postal Service fiscal year, the GDP finished 2004 with an annual growth of 4.5 percent with continued gains in retail sales. However, in retail sales, growth is projected to slow from 5.1 percent in 2004 to 1.8 percent in 2005.

Table 3-3 Operating Revenue and Volume by Class of Mail

	Revenue ($ millions)				Volume (pcs in millions)			
	2004	**%**	**2003**	**%**	**2004**	**%**	**2003**	**%**
First-Class Mail	36,376.8	52.7	37,048.3	54.1	97,926.4	47.5	99,058.7	49.0
Priority Mail	4,421.4	6.4	4,494.3	6.6	848.6	0.4	859.6	0.4
Express Mail	852.8	1.2	888.1	1.3	54.1	0.0	55.8	0.0
Periodicals	2,191.8	3.2	2,234.8	3.3	9,135.3	4.4	9,319.9	4.6
Standard Mail	18,122.5	26.3	17,231.3	25.1	95,563.5	46.4	90,492.2	44.7
Package Services	2,206.9	3.2	2,215.7	3.2	1,131.9	0.6	1,128.5	0.6
International	1,695.8	2.5	1,586.9	2.4	843.8	0.4	805.2	0.5
Special Services	3,091.0	4.5	2,797.8	4.1	n/a	n/a	n/a	n/a
Other*	37.0	0.0	31.9	0.1	602.0	0.3	464.6	0.0
Total**	**68,996.0**	**100.0%**	**68,529.3**	**100.0%**	**206,105.6**	**100.0%**	**202,184.7**	**100.0%**

*Includes Revenue and Volume of Mailgrams, Revenue Foregone, and Volume of mail sent by the U.S. Postal Service.

**Numbers may not add due to rounding.

2. Expenses

Compensation and benefits dominate Postal Service expenses, comprising nearly 80 percent of total expenses. These costs are detailed in Table 3-4. In 2004, management continued to control personnel costs aggressively, cutting workhours by over 21 million and reducing career complement by approximately 21,000. These actions, coupled with the Civil Service Retirement System (CSRS) funding reform legislation, held the increase in compensation and benefits expenses to 3.4 percent. However, over the two-year period beginning in 2002, the increase has been only 1.1 percent. Still, higher costs per workhour and rising health benefit premiums continued to exert upward pressure on expenses. The Postal Service's primary

Table 3-4 Analysis of Expenses

	2004 ($ millions)	2003 ($ millions)	Variance	% Change
Personnel				
Compensation	37,876	37,144	732	2.0
Benefits	14,258	13,284	974	7.3
Compensation and Benefits	52,134	50,428	1,706	3.4
Non-personnel				
Transportation	4,969	4,989	(20)	(0.4)
Supplies and Services	2,419	2,413	6	0.2
Building Occupancy	1,771	1,687	84	5.0
Depreciation	2,218	2,295	(77)	(3.4)
Other Costs	2,340	2,274	66	2.9
Non-Personnel	13,717	13,658	59	0.4
Interest Expense				
Interest Expense - Deferred Retirement	103	116	(13)	(11.2)
Interest Expense - Borrowing	10	694*	(684)	(98.6)
Total Expenses				
	$65,964	**$64,896**	**1,068**	**1.6**

* Includes $360 million in debt repurchase expense.

Table 3-5 Workers' Compensation Expense and Cash Payments

	Estimated Annual Liability for Active Claims	Administrative Charge (DOL)	Total Annual Expense	Payments to DOL for Postal Service Active Claims and Admin. Charges*
	($ millions)			
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	1,524	818****
2003	1,412	45	1,473	892*****
2004	1,187	44	1,239	897

*Payments in this table are on a 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 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 3-6 Income and Expense Statement

($ millions)	2004	2003	Difference	% Change
Income				
Mail Revenue	$65,869	$65,701	$168	0.3
Special Services	3,091	2,797	294	10.5
Revenue Forgone Appropriation	36	31	5	16.1
Operating Revenue	68,996	68,529	467	0.7
Expenses				
Compensation and Benefits	52,134	50,428	1,706	3.4
Transportation	4,969	4,989	(20)	(0.4)
Other Costs	8,748	8,485	263	3.1
Total Operating Expenses	65,851	63,902	1,949	3.0
Income from Operations	**3,145**	**4,627**	**(1,482)**	**(32.0)**
Interest Income	33	58	(25)	(43.1)
Interest Expense - Deferred Retirement Costs	(103)	(116)	(13)	(11.2)
Interest Expense - Borrowing	(10)	(694)*	(684)	(98.6)
Emergency Preparedness Appropriations	—**	177	(177)	NM
Emergency Preparedness Expense	—**	(184)	184	NM
Net Income*	**$3,065**	**$3,868**	**($803)**	**NM**

*Includes $360 million in debt repurchase expense in 2003.
**Included in Total Revenue and Operating Expenses.
***Numbers may not add due to rounding.

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 3-5. Health benefits for employees and retirees, another significant expense driver, increased by $499 million in 2004, an 8.8 percent increase. Total non-personnel costs increased only 1.8 percent despite significant fuel price increases during 2004. Interest expense on borrowing decreased $684 million as a result of refinancing $6 billion in long-term debt in 2003.

3. Net Contribution

The Postal Service posted a net income of $3.1 billion in 2004 against a plan of $2.1 billion. The performance over plan was achieved through managed reduction in expenses and from increased productivity, far exceeding planned efficiencies for the year, and from revenue that increased slightly above plan.

As volumes of relatively higher-contribution First-Class Mail continued to decline and as lower contribution Standard Mail volume increased, total mail volume produced $100 million in revenue over plan. Despite this minimal revenue gain, net income benefited heavily from Postal Service actions to realize The *2002*

Transformation Plan goals through continued management of expenses. Although expenses increased by $1 billion over 2003, they were reduced by $900 million below the already aggressive planned cost reductions of $1.4 billion. The actual cost reductions included savings from the reduction in workhours of 21 million and a reduction of $20 million in transportation expense that was achieved despite escalating fuel costs. As a result of all these cost reductions, Total Factor Productivity grew by 2.4 percent, the fifth straight year of productivity increases. Public Law 108–18, the Postal Civil Service Retirement System Funding Reform Act of 2003 (P. L. 108–18), produced a $2.7 billion positive impact on net income. Without this alteration in retirement funding expense, 2004 net income would have been $400 million.

4. Financing Debt

The U. S. Postal Service is an independent establishment of the executive branch of the United States government. Unlike other federal agencies, it receives no tax dollars for its operations. It is self supporting, and has not received a public service appropriation since 1982. The last time the Postal Service received any substantial contribution of capital from the U.S. government was in 1977, when it received $500 mil-

lion which it was required to use to repay operating debt. The Postal Service funds its operations chiefly from cash generated from operating revenue. However, unlike other mailers in the private sector, it is not permitted to raise capital through the equity markets, and because the Postal Service is expected to break even over time, it is not expected to retain a substantial amount of retained earnings for extended periods to increase its capital. Consequently its only long-run source of outside capital is through issuing debt obligations. An additional challenge is that the Postal Service, unlike the private sector, is not free to set its own prices for its products and services. The postal rate setting process, established by law, is a complex and lengthy process that can take eighteen months to complete. It cannot be easily adjusted to react to changing market conditions.

In 2002 the President and Congress apportioned a total of $762 million for securing the mail and protecting the health and safety of Postal Service employees and customers. At the end of 2004 all of the money has been committed to security related projects. The Postal Service is also required to provide for free and reduced rate mail service for certain groups, and a provision for reimbursement is provided for by law. However, the Postal Service has not been fully reimbursed and is still owed $900 million for this forgone revenue.

The amount the Postal Service borrows is largely determined by the difference between its cash flow from operations and its capital cash outlays. Postal Service capital cash outlays are the funds invested back into the business for capital investments in new facilities, new automation equipment, and new services. From 1997 through 2002, Postal Service outlays for capital investment exceeded cash from operations by $5.4 billion, so most of the difference was covered with borrowed funds. From the end of 1997 to the end of 2002, Postal Service debt outstanding with the Department of the Treasury's Federal Financing Bank increased from $5.9 billion to $11.1 billion. In 2003 the Postal Service reduced its debt by $3.8 billion to $7.3 billion and in 2004 by $5.5 billion to $1.8 billion, its lowest level of debt since 1984.

The enactment of P. L. 108–18 in 2003 dramatically increased Postal Service cash flow by $6.2 billion in 2003 and 2004. However, under this law, in those two years the Postal Service is required to apply the "savings" realized under the law to debt reduction. The required debt reduction amounted to $3.5 billion in 2003 and an additional $2.7 billion in 2004.

The Postal Service undertook financing actions in 2003 that laid the foundation for financial gains in 2004. In 2003 the Postal Service completely overhauled its debt portfolio, paying off all of long-term debt obligations and replacing most of them with short-term debt that would be retired during the course of 2004. As a result of the overhaul, the Postal Service benefited from both lower interest rates on short-term debt and also from the flexibility to repay debt with available cash on a daily basis. A major benefit was the reduction in the interest expense it pays to the Federal Financing Bank. Reflecting this change, interest expense on borrowings, net of capitalized interest, was $10 million in 2004, the lowest since 1972, versus $334 million in 2003, and

Fig 3-4 Debt at Fiscal Year End
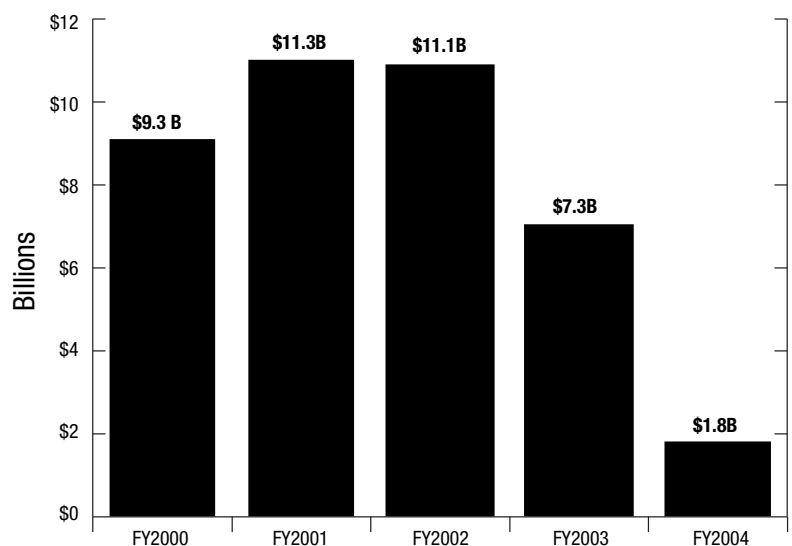
Fig 3-5 Interest Expense on Borrowings
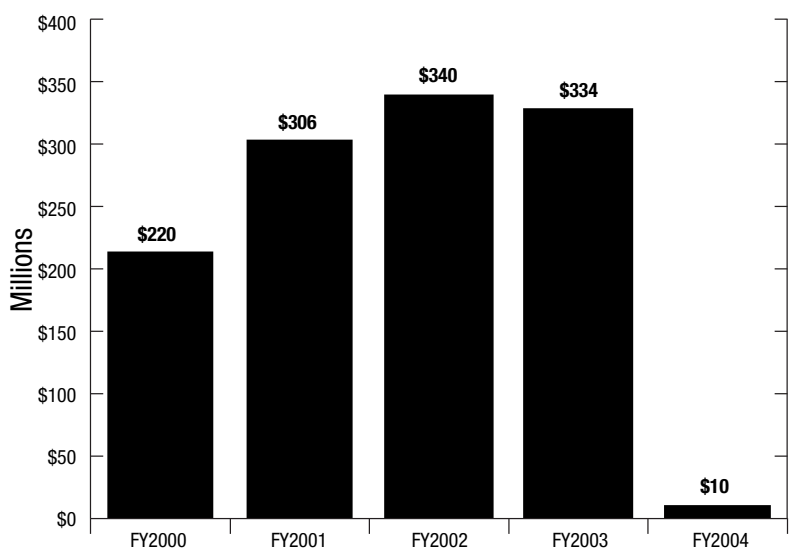
$340 million in 2002. The 2003 debt transactions also provided the Postal Service with the flexibility to pay off $5.5 billion in debt in 2004, substantially more than the estimated $2.7 billion the statute requires, without concerns for paying a prepayment premium. Finally, because the interest earnings on Postal Service investments are expected to exceed the interest expense on its debt for 2005, the Postal Service will benefit from any rise in short-term interest rates.

The opportunity for debt reduction in 2005 will depend upon the ability of the Postal Service to operate at close to break even, combined with its ability to control its level of capital investment. Debt level 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 P. L. 108–18, which requires that "savings" realized under the legislation after 2005 be considered as operating expenses, be held in escrow, and not be obligated or expended until otherwise provided for by law. An additional factor that will affect 2006 debt level is the still uncertain outcome of any rate case filings with the Postal Rate Commission. In the event that any new postage rates do not produce revenues sufficient to cover both the normal projected increases in expenses and the escrow requirement, the Postal Service will be required to cover the shortfall by increasing debt, all else remaining constant.

a. Interest Earning Investments

When the Postal Service determines that funds exceed current needs, it invests those funds with the U.S. Treasury's Bureau of Public Debt. The Postal Service invests primarily in overnight securities issued by the U.S. Treasury, but by statute may invest in any obligation of, or any obligation guaranteed by, the U.S. government, through the secretary of the Treasury. The Postal Service favors short-term investments because of the nature of its cash flow patterns, and to ensure that its investments are not unnecessarily exposed to the price risk associated with increases in interest rates. Postal Service income from investments was $5 million in 2004, versus $30 million in 2003 and $18 million in 2002. Total interest and investment income, including imputed interest on accounts receivable from the U.S. government, was $33 million in 2004 versus $58 million in 2003 and $46 million in 2002.

b. Liquidity

U.S. Postal Service liquidity is the cash in the Postal Service Fund in the U.S. Treasury and the amount of money the Postal Service can borrow on short notice

if needed. In recent years the Postal Service has relied less on cash on hand and more on the readily available cash that it can borrow as needed. The Postal Service's Note Purchase Agreement with the Federal Financing Bank, renewed this year, provides for revolving credit lines of $4 billion. These credit lines enable the Postal Service to draw up to $3.4 billion with two days' notice and up to $600 million on the same business day the funds are needed. Under this agreement the Postal Service can also use a series of other notes with varying provisions to draw upon with two days' notice. The notes provide the flexibility to borrow short-term or long-term, using fixed or floating rate debt, and can be either callable or non-callable. The Postal Service judges that its arrangement with the Federal Financing Bank provides it with adequate tools to effectively manage its interest expense and risk.

The amount of funds the Postal Service can borrow is limited by the amount of debt authorized by the Board of Governors and by certain statutory limits on borrowing. First, total Postal Service debt outstanding cannot exceed $15 billion. Second, the net increase in debt for any fiscal year cannot exceed $2 billion for capital purposes and $1 billion to defray operating expenses ($3 billion maximum annual limit). For 2005, the Postal Service does not project an increase in debt and has not asked the Board of Governors to authorize an increase.

Postal Service liquidity will be comprised of the cash that it has entering 2005 plus the cash flow that it can generate from operations. The Postal Service expects cash flow from operations not only to supply enough cash to fund its capital investments but to generate some additional cash flow that could be applied to further debt reduction. However, the amount of cash and debt that it has at the end of 2005 will be influenced by developments regarding the escrow fund requirement and a potential rate case. A less than favorable outcome of these uncertainties would cause the Postal Service to favor carrying more cash and debt into 2006 as a liquidity cushion.

5. Capital Investment

Capital investments include purchases of plant, property, and equipment with a cost generally greater than $3,000 and a useful life of more than one year. The Postal Service invests in capital projects that reduce operating costs, maintain or expand our infrastructure, or provide for the safety and well being of our custom-

ers and employees. The Postal Service commits capital funds when it signs a contract with a vendor.

Each year the Board of Governors decides upon and approves a capital commitment plan that is itself an essential element of the Integrated Financial Plan. The Postal Service employs an internal review process that ensures each proposed investment is fiscally sound. Investments valued at $10 million or more must be reviewed by the Board of Governors Capital Projects Committee who may then recommend the proposed investment for approval by the Board of Governors.

Capital commitments of $2.1 billion were made in 2004 on a plan of $3.2 billion. The difference between the plan and actual commitments resulted primarily from the rescheduling of three major projects. These include Postal Automated Redirection System (PARS) Phase II for Letters, PARS for Flats and Optical Character Reader (OCR) Enhancements. The two PARS projects, which identify undeliverable-as-addressed mail at the first automated handling and redirect that mailpiece to the proper destination, will be submitted for approval in 2005. The PARS projects were delayed awaiting successful conclusion of the First Article Test. The OCR Enhancements program adds optical character reading capability to existing advanced facer cancellers. Commitments for this project were split between 2004 and 2005 and were reduced as a result of a negotiated price reduction.

The following table summarizes the 2004 capital commitment plan and actual commitments by category of investment.

Table 3-7 Capital Commitments ($ millions)

	FY 2004 Actual	FY 2004 Plan
Mail Processing Equipment	$797	$ 1,816
Facilities	638	676
Infrastructure and Support	474	405
Retail	29	65
Vehicles	185	195
Total*	$ 2,122	$ 3,156

*Numbers may not add due to rounding.

Mail Processing Equipment commitments totaled $797 million and included 3 main projects, OCR Enhancements, Automated Flats Sorting Machine — 100 Automatic Induction System (AFSM 100 — AI), and Integrated Dispatch and Receipt System (IDRS). The AFSM — 100 AI automates the preparation and

feeding of flats on AFSM — 100 machines. The IDRS system reduces allied labor in postal processing facilities by integrating automated dispatch and receipt machines in the material handling systems.

Over $500 million of the Facilities commitments in 2004 were for repair and alteration projects performed at thousands of postal facilities. The remainder of the Facilities commitments were for restoration of the Trenton, New Jersey, Processing and Distribution Center, construction of the Arlington, Virginia, Main Post Office, and various other customer service facilities.

Commitments of $474 million for Infrastructure and Support were made in 2004, and included funding for: the Biohazard Detection System that detects anthrax and other substances on mail pieces entering the Advanced Facer Canceller; the Human Capital Enterprise/Human Resources Shared Services to capitalize on the efficiencies of a centralized shared service center; the Mail Processing Infrastructure Phase II for state-of-the-art structured wiring of our network to support increased data transmissions; the Surface Visibility, Surface-Air Support System Phase III that uses an enhanced distribution label to track sacks, trays, and tubs of mail throughout the network.

Retail commitments of $29 million were primarily for Automated Postal Center units, the self-service kiosks that provide a full range of on-demand postal products and services. These units reduce customer wait time and Postal Service retail costs.

Commitments for Vehicles totaled $185 million in 2004. Most of these funds were for replacement Cargo Vans and for tow trucks and administrative vehicles.

Success of the Letter Mail Automation Program

In July 2004, Postal Service management briefed the Board of Governors on the 44 letter automation programs implemented over the course of 17 years. Thirty-six of these programs required approval of the Board of Governors; more than 14,000 pieces of equipment were deployed and more than 1,200 contracts were issued to purchase and install this equipment.

The actual investment for the 44 letter automation programs was $5.6 billion, compared to an approved investment of $6.3 billion. The return on investment in these programs is estimated at 90 percent. In today's dollars, sortation cost per thousand pieces of mail was reduced from $20.20 in 1989 to $7.42 in 2003. This is equivalent to a reduction of 75,000 full-time positions and an annual cost savings of $5 billion. Customers benefited with reduced costs and improved service as measured by the independently administered External

Table 3-8 Productivity Since 1990

	Total Factor Productivity		Output per Workhour[1]		Multifactor Productivity[2]	
	Annual[3]	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	2.0	20.8
2003	1.8	14.4	2.3	30.8	2.7	23.5
2004	2.4	16.8	2.4	33.3	2.8	26.3

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

[2] 2002–2004 MFP Data are estimates of Global Insights, Inc. BLS data for these years have not yet been released.

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

First-Class Mail (EXFC) overnight service scores that increased from 82 percent in 1992 to 95 percent in 2004.

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 bar coding and presorting, and mode of transportation used, such as air or highway. In addition to labor, TFP also measures capital and materials inputs, such as mechanized and automated equipment, facilities, transportation, and other non-personnel costs. The

Output per Workhour component of TFP uses only labor input as a measure of resource use.

Multiple factors may cause TFP growth to vary in the short term. Expenditures to enhance service and improve customer satisfaction may cause short-term declines in TFP growth. TFP can fluctuate from one year to another because of time lags between making major investments and realizing the associated savings. Consequently, when assessing short-term productivity performance, the factors affecting TFP growth should be taken into consideration. Because TFP can be volatile over the short term, analyses and assessments are best made over fairly long periods of time.

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

growth in the high-tech sector far outstrips that of the industrial and service sectors that are more akin to the Postal Service.

Table 3.8 shows annual and cumulative TFP and Output per Workhour compared to MFP for the years 1990 through 2004. Over the long run, a successful organization will average positive growth in productivity, as has the Postal Service, but year-to-year fluctuations in TFP and Output per Workhour are common. Beginning with 2000, the Postal Service has achieved strong growth in both TFP and Output per Workhour.

The Postal Service's TFP growth of 2.4 percent in 2004 marks five consecutive years of positive growth. Output per Workhour growth was 2.4 percent. The TFP result is equivalent to $1,647 million in expense reductions. Cumulative from 2000, TFP growth measures 9.0 percent, equivalent to $6.1 billion in expense reductions. Output per Workhour over this same period grew 10.7 percent.

When compared to years with strong positive TFP growth prior to 2000, the achievement of 2004 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 2004, however, strong productivity growth was fueled by a substantial restraint on resource usage growth. TFP growth of 2.4 percent was achieved with only a 1.4 percent increase in workload. The Postal Service effectively managed its use of resources to achieve a 1.0 percent reduction in total resource usage. Labor and Materials usage declined by 1.1 percent and 0.9 percent, respectively, and marks the fifth straight year of declines.

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

Worksharing discounts to mailers impact Postal Service productivity performance. Worksharing incentives have shifted a greater proportion of the workload associated with automation compatible mail to business mailers. Worksharing discounts provide cost savings for the Postal Service and enhance the productivity of the economy as a whole. Worksharing, however, transfers the prime opportunities of the Postal Service for productivity improvement to our partners, the mailers. In contrast, the BLS measure, multifactor produc-

tivity, 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

Public Law 108–18, Postal Civil Service Retirement Funding Reform Act of 2003 (P. L. 108–18), modified Postal Service obligations to the Civil Service Retirement System (CSRS) to preclude further overfunding of those obligations. The difference between contributions that the Postal Service would have made if the law had not been enacted and the contributions made by the Postal Service under P. L. 108–18 are defined as "savings." P. L. 108–18 required the Postal Service to use "savings" in 2003 and 2004 ($3.5 billion and $2.7 billion, respectively) to pay down debt and in 2005 ($2.8 billion) to maintain the level of postage rates implemented in 2002. These values reflect the Office of Personnel Management (OPM) calculations as of September 30, 2004. OPM will recalculate the 2004 value in 2005.

In 2004, the second year of "savings" realized from P. L. 108–18, the Postal Service fulfilled its obligations under P. L. 108–18. It has paid down debt and held rates steady. In 2005, the "savings" will be completely consumed in absorbing inflationary cost pressures and contribution loss due to declining revenue that has resulted from mail mix and volume changes. Further, although the "savings" have been consumed, P. L. 108–18 requires that the calculated amount of "savings" in years after 2005 be placed in escrow for use as determined by Congress. This will require an increase in postage rates of approximately 5 percent in 2006 to fund this escrow. Also, P. L. 108–18 requires the Postal Service to fund the full value of retirement benefits attributable to the military service of its CSRS employees. Until passage of P. L. 108–18, military service retirement benefits had been a Treasury Department obligation and remain so for almost every other federal agency.

P. L. 108–18 mandated a review of both the CSRS military service retirement obligation and the escrow requirement. The Postal Service recommended that the obligation to fund military service costs of postal employees' CSRS retirement benefits revert to the Treasury Department. It recommended that the escrow provision be eliminated and that the Postal Service begin pre-funding its obligations for post-retirement health benefits. Legislation is required to implement these recommendations, which could materially affect

Postal Service financial results in 2005 and beyond. Congress is considering legislation that would amend P. L. 108–18 consistent with the Postal Service's recommendations. However the specific provision for amending P. L. 108–18 is part of a broad Postal Reform bill currently before Congress. That legislation incorporates many of the recommendations contained in the July 31, 2003 *Report of the President's Commission on the United States Postal Service*. At the close of the 108th Congress, that legislation had not yet been acted upon.

D. Federal Government Appropriations

By law, the Postal Service is authorized to receive two types of appropriations from the federal government — for public service costs and revenue forgone. Previously, transitional appropriations provided a means to fund costs related to the former Post Office Department (POD) and thereby shelter ratepayers from such costs. Workers' compensation costs related to claims arising prior to July 1, 1971, were the last known POD cost. In the Balanced Budget Reform Act of 1997 Congress transferred responsibility for these costs to the Postal Service and rescinded the section of Title 39 that authorized transitional appropriations to the Postal Service.

Currently, appropriations are made only for revenue forgone. These accounted for less than 0.1 percent of total Postal Service revenue in 2004. During 1971, the final year of the POD prior to creation of the Postal Service, appropriations totaled almost 25 percent of total revenue.

The Postal Service currently is authorized to request up to $460 million for public service costs. This is the amount authorized by the Postal Reorganization Act of 1970 and is not intended to represent the present cost of providing universal service. The Postal Service has neither requested nor received any public service costs reimbursement since 1982. This is the equivalent of returning $10 billion to the U. S. government and taxpayers.

Table 3-9 Historical and Present-Year Impact of Congressional Appropriations on Mail Revenue 1971, 1976, 1986, 1996, 2004

Year	Total Mail Revenue ($ millions)	Mail Revenue Without Appropriations ($ millions)	Appropriation Category	Income From Appropriation ($ millions)	Appropriation as a Percent (%) of Total Mail Revenue
1971*			Deficiency in rates and fees, and Public Service	2,087	23.8%
	8,752	6,665			
1976			Free and Reduced-Rate Mail	725	
			Reconciliation for Prior Years	none	
			Public Service	920	
	12,844	11,199		1,645**	12.8
1986			Free and Reduced-Rate Mail	750	
			Reconciliation for Prior Years	(34)	
			Public Service	0	
	30,818	30,102		716	2.3
1996			Free and Reduced-Rate Mail	93	
			Public Service	0	
	56,402	56,309		93	0.2
2004			Free Mail for the Blind and Overseas Voting	55	
			Reconciliation for Prior Years	(19)	
			Public Service	0	
	68,996	68,960		36	0.1%

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

**This amount does not include the appropriation for Post Office Department Transitional Costs.

In 2004 the Postal Service recognized a revenue forgone reimbursement of $36 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 the next section.

E. Emergency Preparedness Funding

In October 2001 well-publicized incidents of biological terrorism targeted United States senators and members of the national media and also affected other untargeted persons. Some individuals died, while others became gravely or seriously ill. Because infectious biological agents were sent by mail in these attacks, the Postal Service was directly and severely impacted. Two Postal Service employees died of anthrax infection. Mail services in some areas were curtailed, two mail processing facilities had to be closed for the long-term because of anthrax contamination, and overall mail volume declined.

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 implement 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 bio-terrorist attacks, the president of the United States authorized initial funding of $175 million to assist in paying for these safety measures. In November 2001 Congress appropriated an additional $500 million to "protect postal employees and postal customers from exposure to bio-hazardous material, to sanitize and screen the mail and to replace or repair postal facilities destroyed or damaged in New York City as a result of the September 11, 2001, terrorist attacks." 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*. All funding remains available until expended.

The Postal Service initially recorded this $762 million in federal funding as a current liability. This liability is reduced as qualifying expenses are incurred and offsets depreciation expense over the life of capital equipment acquired.

F. Semipostal Stamps

In 1997 Congress authorized the issuance of the first semipostal stamp to raise funds to help in finding a cure for breast cancer. The stamp is sold for 45 cents and is valid for the current cost of a 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

Table 3-10 Application of Emergency Preparedness Plan (EPP) Appropriation Income as of September 30 ($ millions)

	Congressional Appropriation			Presidential Authorization
	2004	**2003**	**2002**	**2002**
Funding Received	0	0	587	175
Operating Expenses	92	0	0	16
Nonoperating Expenses	0	177	4	121
Capital Equipment	0	0	0	38
Balance at September 30	314	406	583*	0

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

Institutes of Health and the Department of Defense Medical Research Program. As provided by law, the Government Accountability Office (GAO) has reviewed this program.

From program inception through the end of 2004, approximately 565 million *Breast Cancer Research* stamps have been sold. Six years of sales has raised a net voluntary contribution of $40.8 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 2004, approximately $0.9 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, 128 million *Heroes of 2001* stamps have been sold. This has resulted in a contribution of $10.2 million to the Federal Emergency Management Agency, which is responsible for disbursing payments to eligible participants. The Postal Service has recovered costs of $0.5 million.

The *Stop Family Violence* semipostal stamp, authorized by legislation enacted by Congress in 2003, provides assistance to the programs and organizations fighting domestic violence. The stamp was issued on October 8, 2003. Like the *Breast Cancer Research* and *Heroes of 2001* stamps, it sells for 45 cents and is valid for the current cost of a one-ounce, single-piece First-Class Mail letter. It will be offered for sale through December 31, 2006. Since inception, 19 million *Stop Family Violence* stamps have been sold. This has resulted in a contribution of $1.3 million to the U.S. Department of Health and Human Services to help fund domestic violence prevention programs. The Postal Service has recovered costs of $0.2 million.

UNITED STATES POSTAL SERVICE®

2004 Performance Report and Preliminary 2006 Annual Performance Plan

January 2005

Government Performance and Results Act Requirements (GPRA)

GPRA requires the Postal Service to:

- Establish strategic goals and objectives.

- Develop reliable, verifiable indicators and performance measurement systems.[1]

- Set improvement targets.

- Describe strategies to achieve targets.[2]

- Provide performance results.
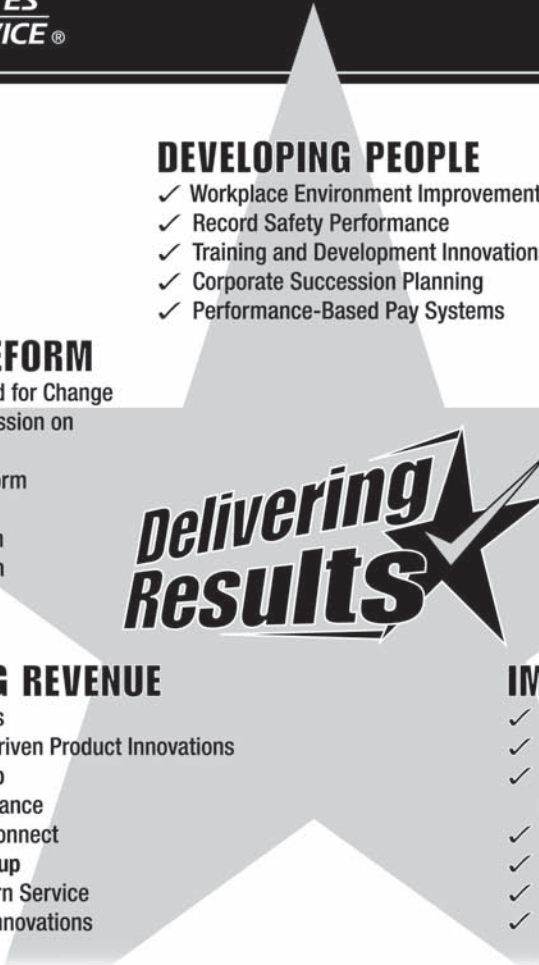
The Postal Service has five strategic goals and associated objectives that will be discussed on the following pages.

[1] The indicators and measurement systems are described in detail in the Annual Performance Plan.
[2] Strategies are described elsewhere in this document and in the Five-Year Strategic Plan.

UNITED STATES POSTAL SERVICE®

DEVELOPING PEOPLE
- ✓ Workplace Environment Improvement
- ✓ Record Safety Performance
- ✓ Training and Development Innovations
- ✓ Corporate Succession Planning
- ✓ Performance-Based Pay Systems

PURSUING REFORM
- ✓ Consensus on Need for Change
- ✓ President's Commission on Postal Service
- ✓ CSRS Funding Reform Legislation
- ✓ Pending Legislation
- ✓ Reforming Our Own Processes

MANAGING COSTS
- ✓ $8.8 B in Cost Reductions since 2000
- ✓ Fifth Straight Year of Positive TFP
- ✓ Reduced Debt by $9.5 B
- ✓ Transformed Administrative, Network, Purchasing Processes

Delivering Results

GROWING REVENUE
- ✓ Stable Rates
- ✓ Customer-Driven Product Innovations
- ✓ Click-N-Ship
- ✓ Online Insurance
- ✓ Customer Connect
- ✓ Carrier Pickup
- ✓ Parcel Return Service
- ✓ Additional Innovations

IMPROVING SERVICE
- ✓ Record End-to-End Service Performance
- ✓ Record Customer Satisfaction
- ✓ Unrivaled Access to Services and Information
- ✓ My Post Office Expansion
- ✓ Quick, Easy, Convenient
- ✓ Reply Mail Website
- ✓ Care Package Kits

1. Improve Service: Timely, Reliable Delivery

The Postal Service has set goals for improving overnight, two-day, and three-day delivery standards for First-Class Mail service. Standards are set based on distance, volume, transportation, and other factors.

Performance has improved in each service category, and has reached record levels.

The Postal Service has set goals, developed indicators and measures, established targets, and tracks performance for other mail services (Express Mail and Priority Mail). While service has improved for both categories, this data is proprietary.

Table 4-1 2004 Performance, 2005 Target, and 2006 Preliminary Performance Plan

FCM	FY2004 Target	FY2004 Actual	FY2005 Target*	FY2006 Prelim. Target
ON	94	95	95	Better than FY 2005
2D	90	92	91	Better than FY 2005
3D	88	91	90	Better than FY 2005

*Quarter I, FY 2005 results will be published through press releases following the February 2005 Board of Governors meeting.

There are no adjustments to the goals, objectives, indicators or measurement systems planned for 2005. However, the Postal Service is increasing its emphasis on providing convenient access and responsive customer service. Indicators and measures based on customer surveys and "mystery shopper" reports are being used to evaluate field unit performance as part of the National Performance Assessment Program.

Fig. 4-1 First-Class Mail Service Performance Delivered Within Standard

Five Year Trend, FY2000 – 2004

2. Manage Costs: Total Factor Productivity

The Postal Service is expected to provide timely, reliable delivery. It is also expected to provide service as efficiently as possible in order to provide reasonable prices to customers. The Postal Service uses Total Factor Productivity (TFP) as an overall measure of its efficiency. It is similar to the Multifactor Productivity measure used by the U.S. Department of Labor.

Postal productivity has improved for the last five years, resulting in significant cost savings. As a result of these efficiencies and the Civil Service Retirement System cost reductions from P. L. 108–18, postage rates were last increased in 2002 and will not be increased until 2006.

There are no adjustments to the goals, objectives, indicators or measurement systems planned for 2005. However, changing economic conditions and competitor initiatives may influence postal workload and productivity performance.

Table 4-2 2004 Performance, 2005 Target, and 2006 Preliminary Performance Plan

	FY2004 Target	FY2004 Actual	FY2005 Target*	FY2006 Prelim. Target
TFP	0.4% SPLY	2.4% SPLY	0.9% SPLY	Achieve Plan

*Quarter I, FY 2005 results will be available on *http://usps.com/financials/* following the February 2005 Board of Governors meeting.

Fig. 4-2 Total Factor Productivity Performance

Cumulative Five Year Trend, FY2000 – 2004
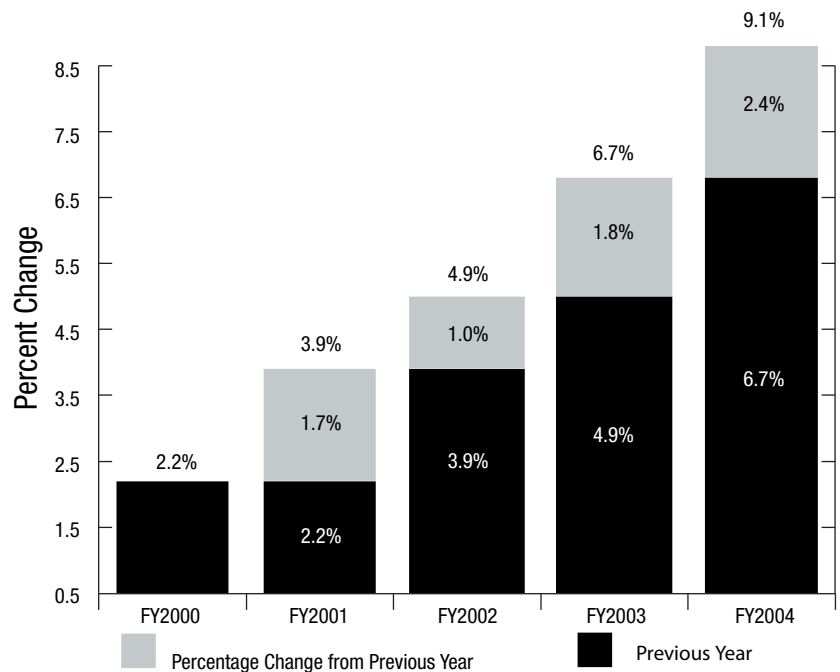
3. Enhance Performance-Based Culture: Develop People (Safety and Workplace Improvement)

The Postal Service is committed to providing a safe[3] and secure workplace, developing its people, and enhancing performance accountability and recognition.

[3] The Postal Service complies with the reporting requirements of the Occupational Safety and Health Administration (OSHA).

Fig. 4-3 OSHA Safety Performance

Five Year Trend, FY2000 -2004
Downward Trend is Favorable
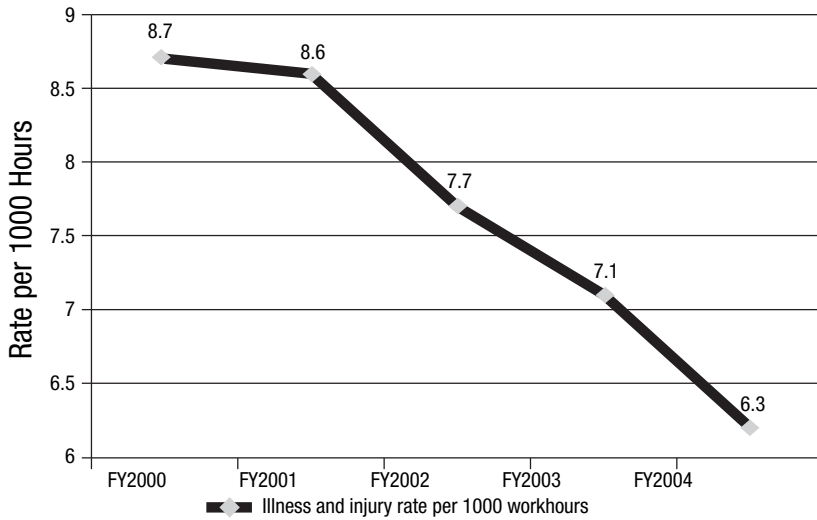
Fig. 4-4 Voice of the Employee Survey Performance

Five Year Trend, FY2000 – 2004
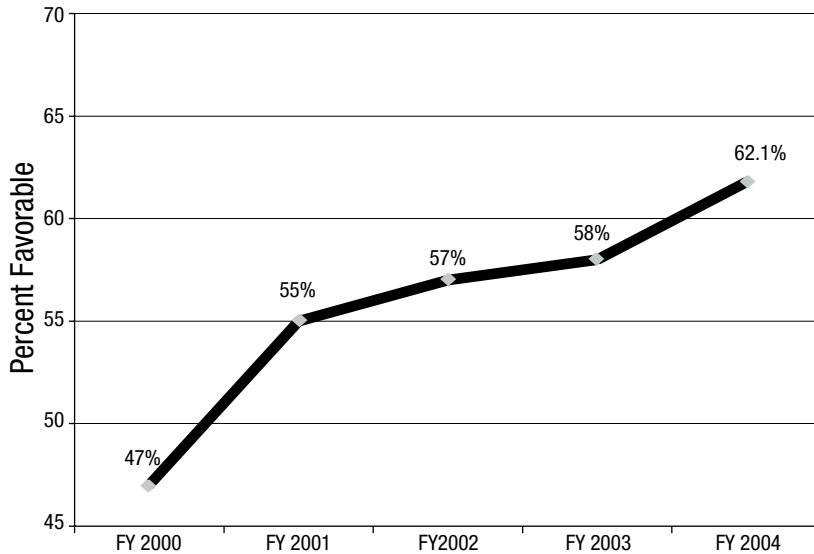
There are no changes to the goals, objectives, indicators, or measurement systems planned for 2005.

Table 4-3 2004 Performance, 2005 Target, and 2006 Preliminary Performance Plan

	FY2004 Target	FY2004 Actual	FY2005 Target	FY2006 Prelim. Target
OSHA Safety (Injury/Ilness Rates)*	Lower Than 7.1	6.3	6.5	Better Than FY2005
VOE Survey Index Result**	Better Than 61.1%	62.1%	62.3% Favorable	Better Than FY2005

*The Injury and Illness rate is calculated using a formula provided by OSHA. "Total number of illnesses and injuries divided by the number of hours worked by all employees multiplied by 200,000 hours. The 200,000 hours represents the number of hours 100 employees working 40 hours per week would work, and provides the standard base for calculating incidence rates."

**The VOE survey is conducted and analyzed by an independent firm under contract to the Postal Service. The survey is administered to one fourth of all career postal employees every quarter, so that every employee is surveyed once a year. An index score is developed from key survey questions.

4. Generate Revenue

The Postal Service is not supported by public funds and must rely on the sales of its mail services to customers in competitive markets to generate the revenue necessary to support the expansion of the universal delivery network. The price of its products are set to cover costs.

From 2000 to 2004, the Postal Service substantially reduced its debt levels.

Future improvements in the financial position depend on the growth of the economy, competitor initiatives, and congressional action on pending legislation.

Table 4-4 2004 Performance, 2005 Target, and 2006 Preliminary Performance Plan

	FY2004 Target	FY2004 Actual	FY2005 Target[*]	FY2006 Prelim. Target
National Total Revenue	$68.9B	$69.0B	$68.3B	Rate Case

*Quarter I, FY 2005 results will be available on *http://usps. com/financials/* following the February 2005 Board of Governors meeting.

Mail volume and revenue growth are dependant on the economy, the occurrence of extraordinary events, the underlying demand for postal services, and the attractiveness of competitive alternatives. Fiscal Years 2000 to 2003 represented a period of extraordinary turbulence in the economy. Despite these conditions, the Postal Service has kept postage rates stable since 2002.

In 2005 postal management expects to seek approval from the Board of Governors to file for a rate increase in 2006. The revenue requirement for 2006 will be provided with the filing.

There are no changes to the goals, objectives, indicators, or measures for 2005.

5. Obtain Reform

The final strategy, to obtain greater flexibility to manage cost and to respond to customer needs depends on Congressional action.

Fig. 4-5 National Total Revenue to Plan Performance

Five Year Trend, FY2000 -2004

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UNITED STATES
POSTAL SERVICE®

Fort Pierce, FL, Rural Letter Carrier Doug Latshaw delivers in spite of hurricane flood waters.