

Network Modernization

For nearly 250 years, the Postal Service has been charged with the responsibility of binding the nation together and enabling communication and commerce across the United States. However, precipitously declining letter mail volume, burdensome legislation and regulation that failed to allow the business model to evolve, and entrenched interests defending the status quo have left the Postal Service in a perilous financial and operational state. Thus, we have been poorly positioned to transition and respond to evolving market trends or transform our processing and delivery network to reflect industry best practices. In some cases, these circumstances have negatively impacted our ability to provide reliable and timely mail service to the American people.

To counter these growing challenges, in March of 2021 we announced the Delivering for America (DFA) Plan, a 10-year strategic plan to modernize and revitalize the Postal Service. DFA takes a comprehensive and deliberate approach to improve service performance while working towards financial sustainability. A key pillar of DFA is the fundamental transformation of our operations network. We will modernize all aspects of our operations — including mail and package processing, delivery, and transportation — leading to cost savings, reliable service, renewed relevance, and longevity for this great institution.

Network Modernization, While Simple in Design, Is Complex in Implementation, and Must Be Understood and Embraced to Overcome Status Quo Forces

The need for dramatic change in our operations and infrastructure must be made loud and clear to our dedicated workforce, regulatory and oversight bodies, and the American public.

The goal of our network modernization endeavor is to deploy best commercial operating practices. While these practices are simple in their design, they are complicated in their implementation, as we must undo decades of outdated processes and approaches that have plagued the organization from both inside and out.

The coming year will be one of continuous implementation of our changes. We expect to end 2024 with the completion of almost 20 modernized processing facilities, the closure of over 40 costly annexes and contracted facilities, the opening of close to 60 commercially impactful Sorting and Delivery Centers, the deployment of approximately 30,000 new carrier vehicles, the reduction of 28 million work hours, the elimination of close to \$1 billion in transportation costs, and the growth of our package business by over \$1 billion.

All of this will be done with efforts to keep service disruptions to a minimum. The road to success and the scope of the changes we are compelled to make will invariably result in some disruption on any given week, in any given area, for any given service. However, we are committed and driven to make the required operational changes as seamless and unnoticeable to our customers as possible.

It should be emphasized that these network modernization initiatives lie in stark contrast to our prior “network rationalization” initiative, which sought to substantially reduce the number of core processing facilities. That strategy failed to anticipate the growth in packages and caused significant inefficiencies in our transportation operations. Our current plans will redesign the network in a way that retools our core facilities, rather than eliminating them, and improves efficiency and service performance with a focus on the future, rather than managing our decline.

Legacy Network Challenges We Are Confronting:

- **Haphazard Network Design** — Many processing functions are spread across several facilities in a given region, with annexes being added on an ad hoc basis, leaving the processing network decentralized, outdated, and inefficient.
- **Transportation Inefficiencies** — The current network requires duplicative or excessive transportation trips to move mail and packages between processing facilities — some just a few miles away.
- **Deferred Maintenance and Upgrades** — Postal employees work in outdated facilities, some suffering from decades of deferred maintenance and a lack of modern processing equipment. This impacts retention of a skilled workforce, which impacts service.
- **Unreliable, Unpredictable, and Unobtainable Delivery Expectations** — Inefficient legacy processing and delivery networks led to delivery delays and worsening service performance over time. Outdated service standards led to unrealistic expectations among our customers, with some products failing to meet legacy standards for years before they were adjusted.

The Solution — Network Modernization:

- A network **designed for precision and optimized for current and evolving levels of mail and package volume.**
- A network that **supports 95 percent on time service performance goals.**
- A network that **provides a better working environment for our employees and a modern processing network for our residential and business customers.**
- A network **built for the efficient use of transportation, minimizing unnecessary and wasteful trips.**
- A network that **supports new products and services like USPS Connect and Ground Advantage** that will be more reliable, predictable, and affordable.
- A network that reinforces and advances the Postal Service's position as the environmentally sustainable way to mail and ship and including **replacing much of our aging fleet with new electric vehicles**, shifting mail volume from the air to ground transportation, and a reduction in trips between facilities due to better truck utilization and transportation schedules.

Processing and Delivery Improvements

The legacy processing network consists of a variety of existing facilities (Processing and Distribution Centers (P&DCs) and Network Distribution Centers (NDCs), along with numerous supportive ancillary facilities, including contracted facilities such as our Surface Transfer Centers (STCs).

The future processing network will consist of standardized facilities, which fall into two categories:

- Regional Processing and Distribution Centers (RPDCs)
- Local Processing Centers (LPCs)

These facilities will be designed, staffed, and operated using a common set of standardized design principles, physical layouts, and operational processes that support the logical sequence of processing, transportation, and cross-docking functions for mail and packages. Standardizing operations will also enable the Postal Service to eliminate complexity, increase operational efficiency, and improve precision across the network.

Regional Processing and Distribution Centers

RPDCs are intended to handle originating operations for letters, flats, and packages as well as destinating package operations for a designated region. RPDCs will also serve as a foundation for future growth since they will accommodate higher-powered package sortation equipment. They will also serve as the control point — or node — for a region, managing the flow of mail and packages that enter or leave its jurisdiction.

Current Status: The Richmond RPDC is now fully online, with operations active in Atlanta, Charlotte, Portland, Boise, and Chicago. A total of 13 RPDCs should be fully designed by end of 2024, with implementation timelines finalized after design completion. In the coming years, we expect to open approximately 60 RPDCs across the country.

Local Processing Centers

Within each RPDC region, there will also be several LPCs (precisely how many will vary across the regions). The intended function of an LPC is to handle destinating letter and flat sortation operations for designated 3-Digit ZIP Codes within the region, and to also serve as a collection point for packages moving to the delivery network. This will optimize mail flow, increase reliability, and improve performance.

In certain locations, LPCs will be collocated with the RPDC. In collocated locations, the LPC will perform the same functions as a separate LPC and will follow the same standardized processes and mail flows. The benefit of collocated buildings is a 100 percent reduction of transportation from the RPDC to the LPC.

Current Status: We are leveraging existing facilities, with at least a dozen LPCs expected to be open by the end of 2024.

Sorting and Delivery Centers

The Sorting and Delivery Center, or S&DC, is a major component of our network transformation. S&DCs will replace many of the current 19,000 Delivery Units (DUs) by aggregating the operation of multiple DUs into one large facility, which can serve a wider geographical area and much broader customer base.

S&DCs will position the Postal Service for success by:

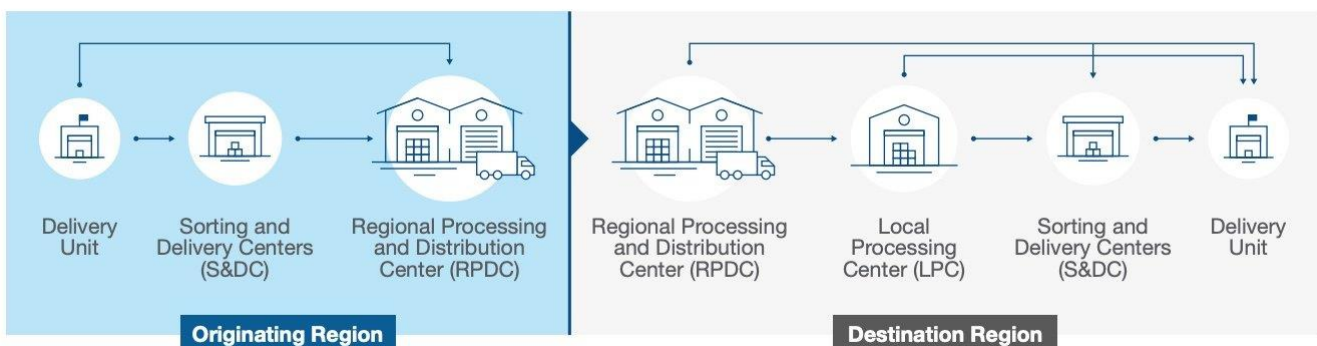
- Utilizing existing buildings that are either postal-owned or have lengthy lease terms where significant upgrades will be implemented, including addressing decades of deferred maintenance.
- Allowing us to expand a business customer’s local, regional, and nationwide market reach from a single nearby drop location in shortened time intervals; in many cases same-day or next-day.
- Enabling electric and facility infrastructure for the deployment of battery electric delivery vehicles.
- Improving the sortation speed of and packages, essential to our financial and operational future, through the installation of new package sortation equipment.
- Greatly improving employee morale by providing modern and inviting workspaces, which in many cases have languished for decades without being properly updated or maintained.
- Substantially reducing costly and underutilized truck trips to and from our processing plants to achieve both financial and environmental goals.
- Some S&DCs will also serve as transfer hubs, allowing for increased efficiency in the distribution of mail and packages.

Customers will see no changes to their local Post Office retail operations. No Post Offices will be closed, and PO Box service will not be changed with this initiative.

Current Status:

- Our first S&DC, opened in Athens, GA last fall, and is already demonstrating operational benefits.
- In February 2023, we opened five new S&DCs in Gainesville, FL; Panama City, FL; Woburn, MA; Utica, NY; and Bryan, TX.
- In June 2023, we opened eight additional S&DCs in Annapolis, MD; Golden, CO; Kokomo, IN; Owensboro, KY; Pasco, WA; Topeka, KS; Williamsport, PA; and Hanover Park, IL.
- In September 2023, we opened fifteen additional S&DCs in Terre Haute, IN; Waco, TX; Chula Vista, CA; Palo Alto, CA; Jackson, MI; Mid-Hudson, NY; Huntington Station, NY; Irvine, TX; North Atlanta, GA; Tulsa, OK; Stockton, CA; Morgantown, WV; Bridgeport, CT; Rockford, IL; and Columbia, SC.
- In January 2024, we opened two additional S&DCs in Pompano Beach, FL and South Atlanta, GA.
- We are currently evaluating more than 100 new S&DC locations nationwide.

The Future Network Flow: End-to-End Model



A New Transportation Network and Delivery Fleet

For years, the Postal Service has vastly underutilized our trucks. Many trucks left facilities less than half-full because mail and packages needed to be moved between too many locations and processing schedules were misaligned. This issue was common across our entire network, from long-haul journeys to trips between processing facilities and delivery units. This approach was unsustainable.

As part of DFA, we are addressing these challenges:

- **In the first quarter of Fiscal Year (FY) 2024 alone, we achieved a savings of nearly a half billion dollars in reduced transportation expenses by:**
 - **Reducing extra trips and cutting underutilized trips** – In FY 2023, we eliminated more than 208,000 underutilized trips, which reduced surface transportation expenses by \$112M. This represents a savings of over 39 million miles driven and nearly 57 million tons of CO2 emissions avoided. In FY 2024, we eliminated additional underutilized contracts during the peak season operations, resulting in savings of \$167M in surface expenses for the first quarter.
 - **Moving volume from air to ground** – We initiated the realignment of routings to take volume from air segments and place on surface connections. This initiative will decrease carbon emissions by reducing demand for cargo flights and adding volume to pre-existing truck routes. In FY 2023, this resulted in a savings of \$600M in air network expenses. In the first quarter of FY 2024, another \$301M in air expense savings have been realized.
- **Centralizing and improving transportation hubs** – Dispatching trucks from one origin heading to multiple final destinations through a single network hub enables the maximum combination of volume for most of the trip. This means increased utilization of containers and trucks. We are also investing in these hubs, redesigning facilities with improved layouts, new equipment, and standardized best practices.
- **Reorganizing local transportation** – In many cases, the Postal Service was using contractors with outdated agreements that went years without significant revision and poorly designed routes that were inefficient and wasteful. Adjusting local transportation schedules allows us to insource many of these routes to postal employees, making our network more cost-efficient and resilient against third-party impacts.

Network modernization also enables the vast distribution of electric vehicles to replace our existing delivery fleet. The total amount of electric Next Generation Delivery Vehicles (NGDVs) is expected to be 75 percent. Between NGDVs and commercial-off-the-shelf purchases (COTS), we are expected to have a replacement delivery fleet comprising of at least 62 percent electric vehicles by 2028. The Postal Service will replace approximately 106,480 delivery vehicles by the end of 2028. With the financially responsible deployment of electric vehicles, enabled by our S&DC network, the Postal Service will be positioned as a green innovator of the 21st Century.

Communication to Stakeholders and Employee Impact

Consistent with our commitment to transparency around implementation of strategic initiatives, the Postal Service will continue to follow our pre-established, robust communication policies. We view communication as key to allowing our employees, communities, customers, and oversight bodies to understand the full benefits of network modernization. We are proud of DFA, and the key initiatives contained in it, including network modernization. Postal Service leadership will continue to proactively inform all stakeholders, including Congress, as we move forward with network modernization. In addition, there will be no career employee layoffs as part of this initiative. All career bargaining unit reassignments, if necessary, as well as the reduction in the number of pre-career employees, will be made in accordance with the respective collective bargaining agreements.

Moving Forward

These network modernization initiatives represent a systematic transformation of the Postal Service's existing network. The Postal Service will roll out these changes on a region-by-region basis over the course of several years. We will continuously monitor the impacts of the changes and adjust as necessary and appropriate. In this regard, DFA is very much a living plan.

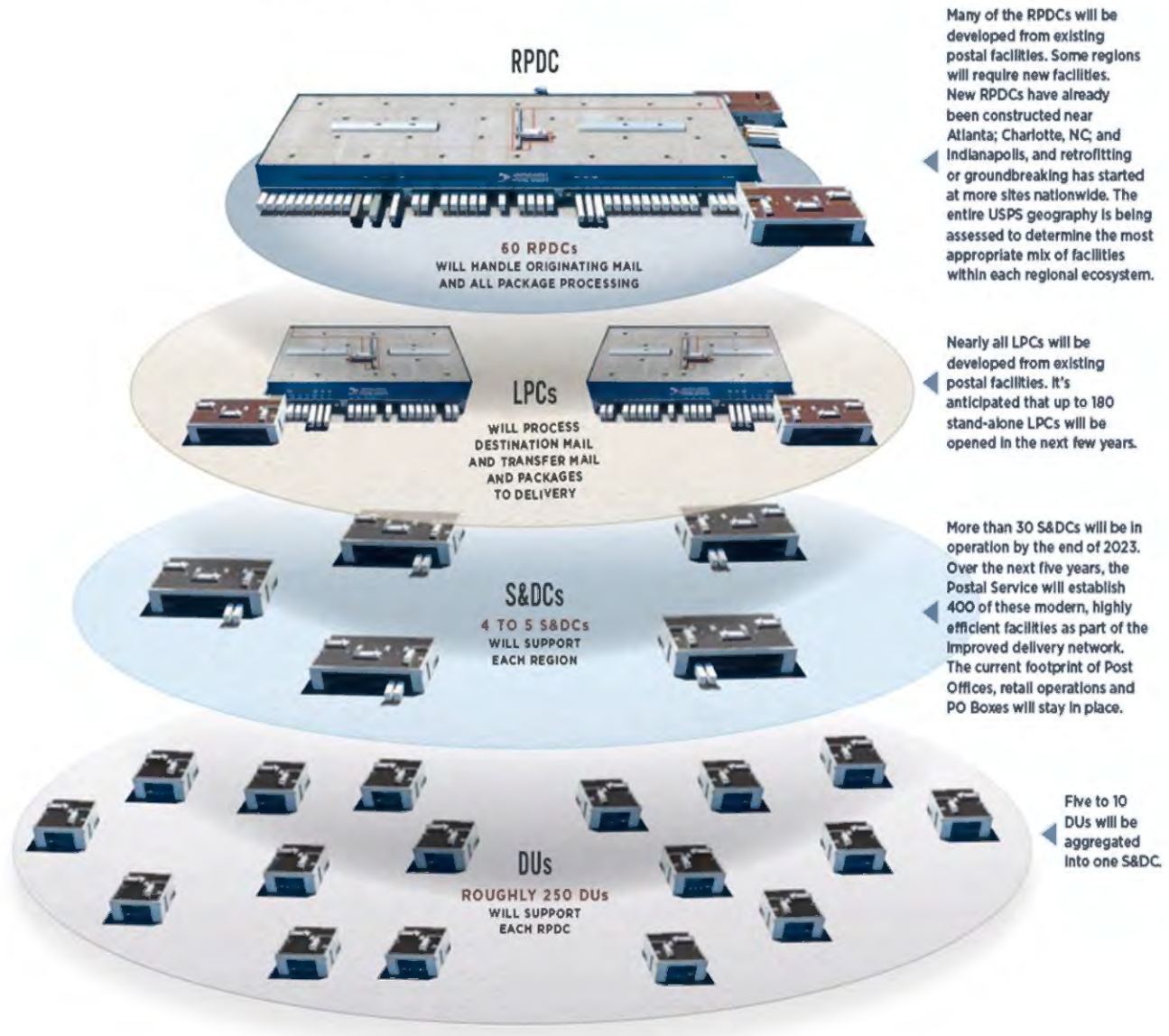
For the Postal Service to fulfil its dual mission of universal service in a financial self-sustainable manner, we must close a \$160 billion deficit over ten years through cost savings and revenue generation. Two years into our 10-year plan, projected losses for the decade have been reduced by more than half, to \$70 billion. Failure to implement these fundamental and long overdue industry best practices could seriously jeopardize our statutory requirements to provide universal service. Network modernization moves us closer to our break-even projections while providing prompt and reliable service for the American public.

Furthermore, efforts to use the legislative or regulatory process to slow down or prevent our progress must be resisted. Such efforts not only interfere with the longstanding statutory independence of the Postal Service to make operational decisions, they also jeopardize the Postal Service's financial sustainability. The American public is better served by a financially viable Postal Service, not by entrenched defenders of the status quo.

As we move forward, the success of the Postal Service depends on implementation of the necessary and long overdue changes that will benefit the future of our organization and the American public. We are on the road to becoming a financially self-sustaining and high-performing organization that will provide the American people with the quality and service they expect and deserve for years to come.

The USPS Regional Processing and Transportation Ecosystem

Within each of the 60 regions in the continental United States served by a Regional Processing and Distribution Center (RPDC), there will be an ecosystem of Local Processing Centers (LPCs), Sorting and Delivery Centers (S&DCs) and Delivery Units (DUs).



No Post Office Closures

Network modernization is not a plan to close or realign the hours of our retail locations. Our plan calls for the closure of costly annexes and contract facilities, which are not accessible to the public.

\$40 Billion in Capital Investments

These investments in our network, technology, and employee experience will transform the Postal Service into a world-class mail and package delivery organization.