

2006 Comprehensive Statement on **Postal Operations**



24:00

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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.

Everyday, we make the connection.

Around the clock, the 700,000 men and women of the United States Postal Service keep the mail moving to give you the service you depend on and trust. We collect, sort, and deliver 700 million letters, cards, ads, bills, payments, and packages. Every action is linked, designed to move the mail one step closer to its destination. We do it today, and then do it all over again tomorrow.

More than 300 million customers at 146 million addresses expect fast, reliable service, courtesy, and consistency at a competitive price, and we deliver for them. How do we do it? We have employees working three shifts, 7 days a week, in six time zones, in everything from giant processing plants to tiny rural offices — tens of thousands of facilities.

We recognize that no part of the Postal Service is an island. It takes a coordinated effort to process, transport and deliver the mail, with employees working together to drive results.

We're dedicated to being the best — 24 hours a day, everyday, everywhere.

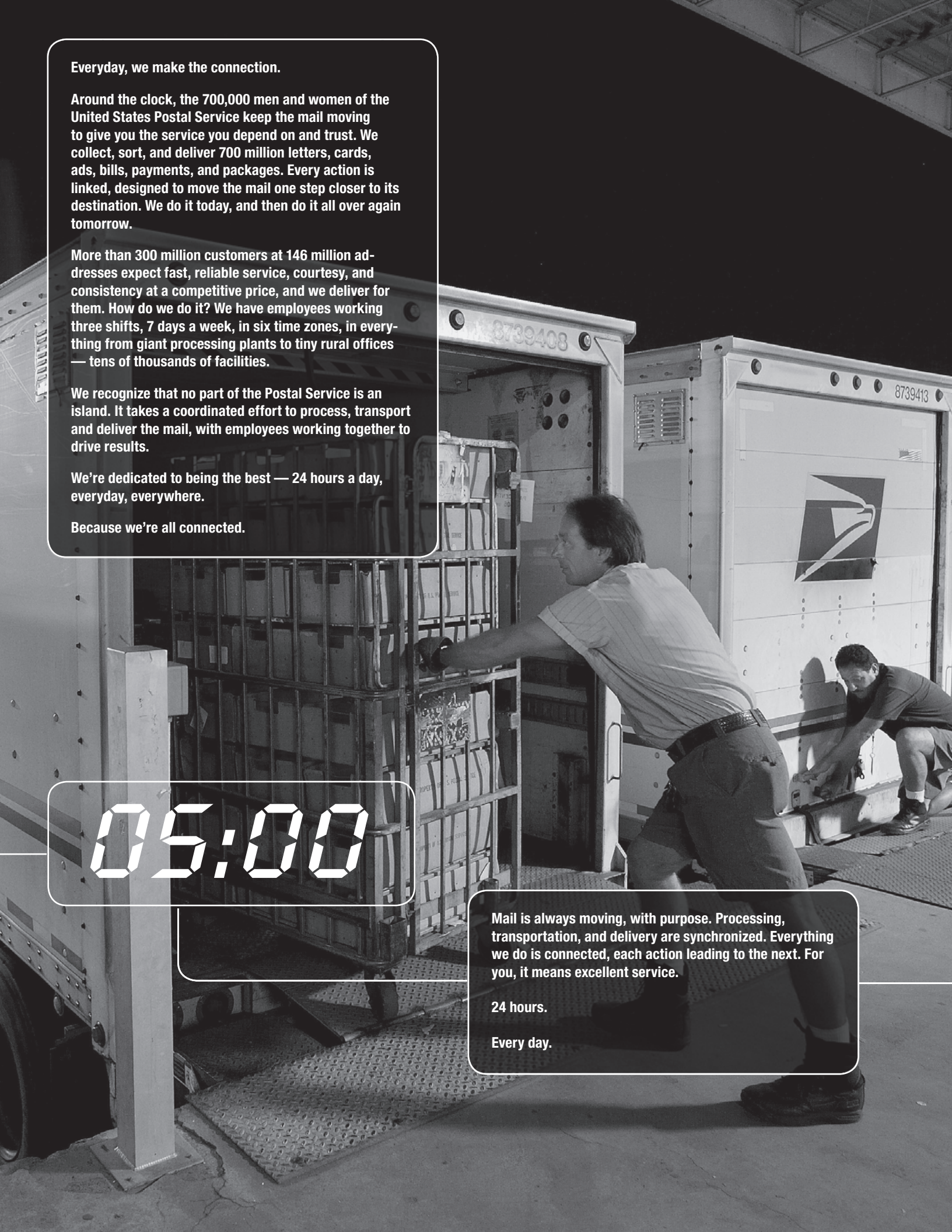
Because we're all connected.

05:00

Mail is always moving, with purpose. Processing, transportation, and delivery are synchronized. Everything we do is connected, each action leading to the next. For you, it means excellent service.

24 hours.

Every day.



Chapter 1 **Compliance with Statutory Policies**

Introduction

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

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

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

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

A. Fundamental Service to the People

1. General

The year 2006 was uniquely challenging. The Postal Service implemented a rate change solely to fund a \$3 billion escrow account mandated by Public Law 108–18. At the same time, because of rising energy and inflation-triggered employee benefits costs, the organization proposed a rate adjustment to go into effect in 2007.

The Postal Service continued to fulfill its mandate to provide reliable, affordable universal service by delivering a record 213 billion pieces of mail in 2006. It stayed focused on its core business and strategies to promote revenue growth, improve service and productivity, and engage employees to deliver consistent, high-performance. This year the Postal Service took the next step in advancing change by publishing the *Strategic Transformation Plan 2006–2010*. The *Plan* builds on the foundation of the 2002 *Transformation Plan* and continues its momentum: helping ensure the organization can respond to changing customer needs, market and technological developments, and legal requirements. The Postal Service pledged to continue its commitment to take \$1 billion out of the cost base each year through 2010.

For the first time since 2002, the Postal Service proposed a price adjustment to cover growth in operational costs. As one of the nation’s largest transportation and delivery organizations, the Postal Service is extremely sensitive to rising energy costs. Postal Service costs go up \$8 million a year for every 1-cent increase in a gallon of gasoline. Like other businesses, the Postal Service also experienced significant growth in health benefit payments. The addition of more than 1.8 million new addresses also increased cost pressures. The price adjustment proposal included a 3-cent increase in the price of a First-Class Mail stamp, pricing incentives based on shape, and the introduction of a “forever stamp,” which would be good for any future single-piece First-Class Mail letter. The annual effect of the price adjustment proposal is well below \$6 for the average household. Mail remains a great bargain.

The Postal Service continued improvements to produce better, more consistent service. The Postal Service delivers 50% more mail than it did 20 years ago, with the same number of employees. The Postal Service completed the deployment of its first Automated Package Processing System machines, which can process parcels and bundles of mail at more than 9,500 pieces per hour. A ground-breaking Intelligent Mail barcode, named for its four vertical bar types, was introduced. It provides mailers with a powerful new business tool and helps the Postal Service process letters and larger flat-shaped pieces more efficiently. A new scanning system provides real-time visibility for mail as it moves through the surface transportation network. Planning and preparation continued for a Flats Sequencing System that will allow the sequencing of larger mailpieces in the order of delivery.

Consumers benefited from the standardization of messaging and merchandise in retail locations, making it easier to find the right services for their shipping and mailing needs. Extended retail hours came to more than 1,400 postal locations, providing greater access and convenience. The Postal Service continued to improve the value of its products by introducing new features like the Priority Mail shoe box and additional Customized

Chapter 1 Compliance with Statutory Policies

Postage offerings. A redesigned Postal Store Web site on *usps.com* provides customers with a single entry point for purchasing stamps and retail products and ordering shipping supplies. The Web also made it easier to conduct commercial mailings. With a new Postage Statement Wizard, customers can send their postage statements straight from their workstation.

The Postal Service kept up a “dialog” with residential and business customers through direct mail postcards. These cards featured comic strip characters “*Dilbert*” and “*Cathy*” and provided information about a variety of products and services, from flat-rate packaging to postal money orders to online change of address. This proved to be an extremely effective advertising campaign, credited with raising awareness of these services by 28%.

Efforts to make employee transactions quick, easy, and convenient were also a major focus. The Postal Service is replacing outdated human resources technology with a fully integrated system to streamline and automate personnel transactions. Once fully implemented, the new Human Capital Enterprise System (HCES), which is the technology behind the *PostalPEOPLE* project, will be the largest of its kind anywhere.

2. Board of Governors

As the governing body of the U.S. Postal Service, the 11-member Board of Governors has responsibilities comparable to the board of directors of a publicly held corporation. The Board includes nine Governors appointed by the President of the United States with the advice and consent of the Senate. The other two members are the Postmaster General and the Deputy Postmaster General. The Governors appoint the Postmaster General, who serves at the pleasure of the Board, without a specific term of office. The Governors, together with the Postmaster General, appoint the Deputy Postmaster General. The Chairman and Vice Chairman are elected each January. The Board directs and establishes policies, basic objectives, and long-range goals for the Postal Service in accordance with Title 39 of the United States Code. Except for those powers specifically vested in the Governors, the Board may delegate the authority vested in it by statute to the Postmaster General under such terms, conditions, and limitations, including the power of re-delegation, as it deems desirable.

The Postal Service fiscal year (FY) 2006 began on October 1, 2005, and ended September 30, 2006. The full Board held meetings each month except in October, April, and August. Meetings consisted of open and closed sessions in accordance with the provisions of the Government in the Sunshine Act. Altogether, the full Board met 14 days. Meetings were held in Washington, D.C., except for June, when the Board traveled to Indianapolis to view delivery operations, see flat sorting sequencing equipment, and meet with employees. In addition to full Board meetings, committee meetings were held throughout the year, some not coincident to the full Board meeting dates. The Board had four standing committees: Audit and Finance, Capital Projects, Compensation and Management Resources, and Governance and Strategic Planning. The committees met to consider matters within their areas of responsibility and referred items to the full Board for consideration.

In November 2005 the Board approved a comprehensive change in international rates and a change in the implementation date for a negotiated service agreement with HSBC North America Holdings Inc. The Governors approved the Postal Rate Commission Opinion and Recommended Decision concerning Changes in Postal Rates and Fees Pursuant to Public Law

108–18, Docket No. R2005-1 with an implementation date of January 8, 2006. The Board also approved the audited 2005 financial statements.

At the December 2005 meeting, the Board approved the *2005 Annual Report* and the 2007 appropriation request to Congress. The Board also approved capital funding for Phase 3 of the mail processing infrastructure program.

In January 2006 James C. Miller III was reelected Chairman of the Board and Alan C. Kessler was reelected Vice Chairman. The Board approved the annual report on Government in the Sunshine Act Compliance, a resolution on capital funding, the establishment of a Compensation and Management Resources Committee, and the *2005 Comprehensive Statement on Postal Operations*, including the Preliminary Annual Performance Plan for Fiscal Year 2007. The Board also approved capital funding for the Northeast Metro Michigan Processing and Distribution Center, and a filing with the Postal Rate Commission to extend the market test of Repositionable Notes.

In February the Board approved two filings with the Postal Rate Commission: an Advisory Opinion on service changes associated with the Evolutionary Network Development strategy and a negotiated service agreement with Washington Mutual Bank. The Board also approved two capital funding requests: remote encoding and flats sequencing systems and delivery point packaging research and development modification. The Chairman appointed members to the Board committees.

At the March meeting, the Governors approved two Postal Rate Commission Opinions and Recommended Decisions: Repositionable Notes Minor Classification Change, Docket No. MC2006-2, and Parcel Return Service, Docket No. MC2006-1.

In May the Board approved a filing with the Postal Rate Commission for rate adjustments in 2007 including a “forever stamp.” The Board also approved capital funding requests for the following projects: Automated Flat Sorting Machine 100 — Automatic Induction System, Phase 2; additional delivery barcode sorter equipment; and the Oklahoma City local processing and regional distribution center and vehicle maintenance facility.

In June the Board approved a filing with the Postal Rate Commission for changes to the rate discounts associated with the previously filed negotiated service agreement with Washington Mutual Bank.

The Board met in July to discuss legislative issues and strategic planning.

In September the Governors approved two Postal Rate Commission Opinions and Recommended Decisions: Periodicals Nominal Rate Minor Classification Change, Docket No. MC2006-5, and Extension of Capital One Negotiated Service Agreement, Docket No. MC2006-6. The Board approved a bylaw amendment concerning negotiated service agreements. The Governors approved the Office of Inspector General Fiscal Year 2007 Budget. The Board also approved revisions to three of its committees’ charters and the budget for the Office of the Governors. The Governors approved the budget for the Postal Rate Commission for 2007. The Board also approved the Postal Service 2007 operating, capital, and financing plans and two capital funding requests: Automated Package Processing Systems (APPS), Phase 2 and the purchase of an existing leased postal facility in Phoenix, Arizona.

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Table 1-1 Management Annual Planning Cycle

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

3. Strategic Planning

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

A. STRATEGIC PLANNING CYCLE

The strategic planning cycle shown in Table 1-1 includes development and deployment of performance targets, assignment of accountability, allocation of necessary resources, program implementation, and program review and reevaluation. Each year, the Postal Service establishes organizational objectives, performance indicators, and measurement systems, and sets annual targets in compliance with the requirements of the Government Performance and Results Act.

B. STRATEGIC TRANSFORMATION PLAN 2006–2010

The *Strategic Transformation Plan 2006–2010*, published September 2005, is the Postal Service's blueprint for the future. It commits the organization to new advances in service, customer convenience, productivity, and employee engagement. It describes how the Postal Service will improve the value of mail and sustain a financially stable enterprise. It describes strategic challenges, trends, and transformation strategies, and gives stakeholders essential information on developmental programs. It is organized around four strategic goals: generate revenue, reduce costs, improve service, and achieve results with a customer-focused, performance-based culture. The Postal Service updates the *Plan* annually to accommodate continuing changes in its business environment. Strategies and targets are then deployed throughout the Postal Service for implementation.

C. STRUCTURAL RESPONSIBILITY FOR IMPLEMENTATION

Postal Service operations are managed and supported by a Headquarters and field organizational structure streamlined over the years for maximum efficiency and responsiveness. Headquarters management reports to the Postmaster General and consists of the Deputy Postmaster General and Chief Operating Officer, three executive vice presidents, five senior vice presidents, and 30 vice presidents. The Deputy Postmaster General and Chief Operating Officer has management responsibility for Headquarters and field operations.

Responsibility for operations within each of the nine area offices rests with the vice presidents of Area Operations. The area offices have oversight for 80 performance clusters. Performance clusters, some spanning multiple states, consist of customer service district offices and processing and distribution centers.

The following table shows areas, as well as, states that are served by each performance cluster. Some states are served by multiple performance clusters.

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Table 1-2

Area Office and Performance Cluster Listing	
Capital Metro Area	
Baltimore	MD
Capital	DC, MD
Greater South Carolina	SC
Greensboro	NC
Mid-Carolinas	NC, SC
Northern Virginia	VA
Richmond	VA
Eastern Area	
Appalachian	VA, WV
Central Pennsylvania	PA
Cincinnati	IN, KY, OH
Columbus	OH
Erie	PA
Kentuckiana	IN, KY
Northern Ohio	OH
Philadelphia Metropolitan	PA
Pittsburgh	PA, WV
South Jersey	DE, NJ
Great Lakes Area	
Central Illinois	IL
Chicago	IL
Detroit	MI
Gateway	IL, MO
Greater Indiana	IN
Greater Michigan	MI
Lakeland	MI, WI
Northern Illinois	IL
Southeast Michigan	MI
New York Metro Area	
Caribbean	PR, VI
Central New Jersey	NJ
Long Island	NY

Table 1-2

Area Office and Performance Cluster Listing	
New York	NY
Northern New Jersey	NJ
Triboro	NY
Westchester	NY
Northeast Area	
Albany	NY
Boston	MA
Connecticut	CT
Maine	ME
Massachusetts	MA
New Hampshire/Vermont	NH, VT
Southeast New England	MA, RI
Western New York	NY
Pacific Area	
Bay-Valley	CA
Honolulu	HI
Los Angeles	CA
Sacramento	CA
San Diego	CA
San Francisco	CA
Santa Ana	CA
Sierra Coastal	CA
Southeast Area	
Alabama	AL
Atlanta	GA, MS
Central Florida	FL
Mississippi	MS
North Florida	FL
South Florida	FL
South Georgia	GA, MS, SC
Suncoast	FL
Tennessee	FL

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Table 1-2

Area Office and Performance Cluster Listing

Southwest Area

Albuquerque	AZ, NM, TX
Arkansas	AR
Dallas	TX
Fort Worth	OK, TX
Houston	TX
Louisiana	LA
Oklahoma	OK
Rio Grande	OK, TX

Western Area

Alaska	AK
Arizona	AZ
Big Sky	MT
Central Plains	IA, MO, NE
Colorado/Wyoming	CO, WY
Dakotas	MN, ND, SD
Hawkeye	IA, IL
Mid-America	KS, MO
Nevada - Sierra	CA, NV
Northland	MN, WI
Portland	OR
Salt Lake City	UT
Seattle	WA
Spokane	WA

B. The Workforce

1. Opportunity

A. EMPLOYMENT OPPORTUNITY ENHANCEMENTS

In 2006 more than 55,000 reassignment requests from 26,000 employees were submitted through eReassign. From this number, more than 4,800 career bargaining unit employees have been successfully reassigned. Approximately 20% of bargaining unit vacancies were filled through eReassign. In 2007 eReassign will be migrated to the Human Resources Shared Services Center in Greensboro, North Carolina.

During 2006 the Postal Service continued efforts to highlight the importance of careful, complete suitability screening of applicants. The screening policy was revised to require a criminal record check in each county where the applicant resided for the past 5 years and investigations training was conducted for personnel staff. eScreening, the process for obtaining criminal and motor vehicle records electronically from a secure Web site, was enhanced to include new features. The number of hiring sites using eScreening more than doubled.

B. TECHNICAL AND CRAFT EDUCATION

The National Center for Employee Development (NCED), Norman, Oklahoma, continued to provide employee courses that supported efforts to manage and maintain postal systems, upgrade mail processing, improve automation system performance, upgrade networking infrastructure, and deploy new vehicles. Core NCED programs provided business and employee education on automation systems, customer service equipment, facilities, and vehicles. Other courses included business mail management, information technology, network supervision, and safety and environmental compliance.

The NCED expanded in-depth campus programs, field-site delivery, distance learning, and eLearning courses. The Postal Service provided 500 courses through 3,500 offerings to 229,000 students — 25% more students than the previous year. NCED satellite and audio distance learning networks not only supported NCED's courses, but delivered other Postal Service training and information broadcasts to another 240,000 students in their home offices. NCED revenues exceeded expenses for the sixth straight year. Training and conference support for nonpostal clients generated more than \$2.2 million in revenue.

The Postal Service created new national training programs to support the implementation of the Safe Driving Program. This involved expanding driver training from 2- to 3-days (affecting 48,000 employees per year) and redesigning Driver Safety Instructor Training for all designated driver safety instructors.

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C. TRAINING AND TECHNOLOGY

The Postal Service provided 400 eLearning courses nationwide, with 57,398 participants registered. The courses included a combination of commercial off-the-shelf products and internally developed courses. A small team of in-house instructional designers are responsible for designing all internal, technology-based training products, which resulted in reduced development time and cost savings of \$618,800. In addition, the organization increased its Web-based delivery capacity by expanding its technology infrastructure to include an Automated Enrollment System (AES). AES expands on current legacy systems to coordinate administration, scheduling, tracking, assessment, and testing of students in classroom and elearning settings.

The Postal Service also contracts with a third party to deliver business-related training content through the use of the Postal Satellite Training Network on subjects such as leadership, diversity, safety, customer service, and general business content. Approximately 200 courses are available through this network. The network courses were attended by 240,297 students.

D. MANAGEMENT TRAINING

The Postal Service piloted and implemented a new Postmaster Level 18 and Up Training program in response to field requests. There was also a need to fill crucial manager of Human Resources (HR) positions with qualified and prepared HR professionals. To address this need, the Postal Service provided the HR Manager Training Program to 196 students with 133 graduating. Needs assessments were initiated for a number of new core operational management training initiatives slated for completion in 2007, including Post Office Operations, Distribution Operations, In-Plant Support, Maintenance Operations, and Training. Operations Support Specialist training was also updated.

The Advanced Leadership Program (ALP) has been the Postal Service's premier development initiative since 1998. It targets successful mid-level managers who demonstrate high potential to assume greater responsibility. The ALP's content is aligned with the Postal Service's Executive Competency Model that identifies behaviors necessary for successful performance at the executive level of the organization. A total of 1,581 participants have completed ALP since inception.

E. INTERN PROGRAMS

Approximately 1,400 Postal Service and non-Postal Service candidates applied to the management intern recruitment program. Currently, there are 30 active management interns in various stages of the program. Twenty-one completed the 24-month program in June, and were out-placed into mid-level field operations management positions, including the new manager of Distribution Operations Trainee (EAS-21) position.

The Postal Service continued recruiting for additional Professional Specialist Intern (PSI) positions. There are currently nine PSIs in various stages of development. The Professional Specialist Trainee/Industrial Engineer (PSTIE) training program out-placed a total of 23 industrial engineer trainees to field industrial engineer positions. There are currently 43 active PSTIEs in various stages of development. This program exposes engineers to every facet of postal operations.

F. WILLIAM F. BOLGER CENTER FOR LEADERSHIP DEVELOPMENT

The William F. Bolger Center for Leadership Development is the national executive management and leadership training center for the Postal Service. Its mission is to provide a premier learning environment for managers to develop, plan, think, and grow personally and professionally. Approximately 98,000 people utilized the center, including 46,000 postal employees who attended courses and meetings.

The Bolger Center Media Unit continued to create video productions and Postal Service Television Network broadcasts that assisted in meeting learning needs of employees. Most notably, the Media Unit produced a DVD video series dealing with retirement topics for employees covered by both the Civil Service Retirement System and Federal Employees Retirement System. Another series, Basic Supervisory Tools, was produced to assist field delivery managers with delivery operations from office layout to street management. The Media Unit continued to partner with USPS-TV to produce several programs. *COO Update* gives field and Headquarters operations managers timely information on Postal Service business performance trends. *MarketPlace* focuses on products, services, and revenue generation efforts. The Postal Service received 2006 Telly Awards for Leaders of Character (Inspection Service recruitment video), Safety Depends on You, and National EEO Investigative Services Office.

G. EXECUTIVE DEVELOPMENT AND CORPORATE SUCCESSION PLANNING

The Postal Career Executive Service (PCES) was established to develop and maintain a highly motivated, competent group of managers to fill key executive-level positions and provide the leadership needed for continued organizational success. In 2006 there were 828 managers in the PCES, including 40 officers. During 2006, 88 new executives were appointed.

To maintain a highly productive executive workforce, this year the Postal Service introduced the Executive Development Continuum (EDC). The EDC builds on experiences and lessons learned during the last 4 years with the former Executive Development Program, parts I and II, and the former New Executive Orientation Program. Elements from these programs have been integrated into EDC. The Postal Service offers four developmental tiers tailored for the newly-promoted, mid-career, and senior PCES managers. They are: Executive Foundations, Executive Leadership, Individualized Executive Development, and Performing at the Peak. Individualized Executive Development and Performing at the Peak are still in development. The first offerings of Executive Foundations for 22 new executives and Executive Leadership for 19 executives received overwhelmingly positive ratings from its participants. Executive Foundations focused on leading from an integrated understanding of the business by allowing participants to interact with Executive Committee members who served as program instructors. The Executive Leadership program is designed to help new executives gain deeper insight into the dynamics of leading people through organizational change. Executives are also provided with extensive feedback on assessment instruments that measure their leadership styles and preferences and the degree to which their leadership ability is affected.

Identification of future executives continues through the use of the automated Corporate Succession Planning (CSP) process. CSP operates on a 2-year cycle, during which employees identified as potential

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successors develop and pursue targeted individual development plans (IDPs) to better prepare for executive level assignments. The 2005–2006 open season cycle resulted in 2,129 applicants from which 1,206 potential successors were approved. Potential successors are now following their IDPs, a process that will continue through the start of the next open season, in 2007. In September 2006 the nationwide EAS Leadership Development process was launched to augment the CSP process by reaching deeper into the organization to identify and develop employees to compete for nonexecutive management positions.

2. National Diversity Initiatives

A. GENERAL

The Postal Service is committed to fostering a business culture that provides excellent service to customers and an inclusive work environment for employees. The diversity of employees — their backgrounds, education, perspectives, talents, and skills — plays an integral role in achieving these goals.

The Postal Service acknowledges that to meet its strategic objectives, it must leverage the creativity of all employees by integrating diversity into all business practices. The intent is to foster a work environment where employees contribute ideas, seek challenges, assume leadership roles, and perform at their best. This approach will enable the Postal Service to achieve full stature as a model employer, as defined by the Equal Employment Opportunity Commission's (EEOC) Management Directive 715. The Postal Service is focusing on four strategies to become a model employer:

- Enhance recruitment and retention.
- Leverage the talents and skills of a diverse workforce.
- Reinforce commitment to diversity initiatives.
- Meet the demographic and economic growth of a growing diverse customer base and the sophisticated demands of tomorrow's workforce.

B. AFFIRMATIVE EMPLOYMENT PROGRAM: MANAGEMENT DIRECTIVE 715

Affirmative Employment Programs are centered on compliance with Equal Employment Opportunity (EEO) laws and the U.S. EEOC regulations and directives, including Management Directive (MD) 715. The directive requires federal agencies to identify and eliminate workplace policies and practices that create barriers to equal employment opportunity. It establishes reporting requirements designed to guide agencies to better address evolving trends in recruitment, hiring, career development, promotions, separations, and awards and recognition. The Postal Service developed and conducted training for diversity professionals on the requirements of MD-715, including the essential elements of a Model EEO Program. Participants received training in conducting barrier analyses, examined case studies, analyzed data, and received hands-on experience in completing an annual EEO Program Status Report. A total of 133 employees attended the eight sessions. In addition, regularly scheduled teleconference training sessions with field diversity professionals were

conducted to update and enhance their knowledge and ability to produce quality reports.

The Postal Service can only be as effective as the people it hires. Identifying and recruiting the right people for the right jobs is a business imperative.

As a recruitment strategy, the Postal Service implemented a pilot internship program this summer through a partnership with The Washington Center for Internships and Academic Seminars. The objective was to establish a structured internship training program focusing on the U.S. Postal Service current recruitment needs. Seven university students participated in the 10-week program that included assignments in Human Resources, Supply Chain Management, Finance, and Public Affairs and Communications. The internship program attracted a diverse group of students who gained a greater knowledge and appreciation of the Postal Service. This effort also helped the Postal Service raise its visibility on college campuses to showcase current employment opportunities.

In accordance with the EEOC rules in Title 29, Code of Federal Regulations, Section 1614.102, the Postal Service maintains affirmative programs such as the Hispanic Program, the National Women's Program, and other Special Emphasis programs. These programs help support its model agency goals and foster an inclusive environment that thrives on its diversity, promotes fair and open opportunities, and identifies and eliminates any barriers to equal employment opportunity.

1. NATIONAL HISPANIC PROGRAM

The Postal Service continued on-going dialog with the Hispanic community through participation in the Federal Hispanic Employment Program Managers' Second Annual Summit. At the Summit, postal representatives highlighted best practices used by the Postal Service's highly successful Hispanic Program. In support of the organization's key imperatives of engaging employees and generating revenue, the Hispanic Program updated the Baseline Activities Guidelines. These guidelines provide key information on interaction with the diverse communities served on a daily basis. In cooperation with the National Hispanic Leadership Institute (NHLI), the Postal Service sponsored a national leadership training attended by more than 100 employees. This training enhanced participants' professional development and leadership skills, and provided an excellent opportunity to network with leading professionals who could serve as role models and mentors.

2. NATIONAL WOMEN'S PROGRAM

In October 1967 Executive Order 11375 added the purview of sex to other prohibited forms of discrimination in the federal government. In 1974 the Postal Service established the National Women's Program as a special emphasis separate entity to address the barriers that impeded the advancement of women, pursuing fairness in all aspects of employment, including hiring, retention, training, career development, and promotions.

In adherence to this mandate, the Postal Service sponsored the Federally Employed Women 37th Annual National Training Program, and hosted an agency forum entitled "Leadership-Managing the Journey." This forum provided 175 high-potential employees with the opportunity to develop leadership skills and network with postal executives. This year's conference gave attendees an opportunity to attend a variety of training

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sessions on leadership and organizational skills, and EEO/Diversity issues, among others which ranged from a half-day overview to 2-day comprehensive workshops.

The Postal Service also participated in the Women's Business Enterprise National Council (WBENC) conference. The WBENC is the nation's leading advocate of women-owned businesses and the largest third-party certifier of businesses owned and operated by women in the United States. More than 2,500 women attended this year's conference. By participating, the Postal Service increased external awareness of employment and business opportunities.

3. SPECIAL EMPHASIS PROGRAM

Maintaining ties with diverse communities is crucial for the Postal Service to stay connected with its customers, to assess their product and service needs, and to recruit diverse talent.

Through Special Emphasis programs, the Postal Service sponsored conferences on equal employment opportunity, including conventions hosted by the National Association for the Advancement of Colored People, the Urban League, Society of American Indian Government Employees, the Organization of Chinese Americans, the African-American Postal League United for Success, and the Asian Pacific American Federal Career Advancement Summit. The Postal Service also held special events commemorating Black History, Women's History, Hispanic Heritage, Asian Pacific Heritage, and American Indian Heritage months. The efforts of postal employees at these national events yielded an average of more than 5,000 postal exhibit visitors per event, and helped educate attendees about postal services such as NetPost, Click-N-Ship, and Carrier Pickup. Surveys and sales leads were generated for follow-up by account managers and small business specialists. Event visitors also provided insights to help the Postal Service market products to underserved and growth markets and better recruit new employees from a broad and diverse base.

C. EMPLOYMENT OF INDIVIDUALS WITH DISABILITIES

The Postal Service uses regular competitive procedures in selecting individuals with disabilities for employment. Individuals with severe disabilities receive noncompetitive employment consideration through referrals from individual state departments of vocational rehabilitation or the Department of Veterans Affairs. In 2006 the Postal Service's career workforce included 41,325 employees with reported disabilities.

The Postal Service is delivering on its commitment to improve the workplace environment by enhancing communication for its deaf and hard of hearing employees. In 2005 the organization rolled out Phase 1 of the Video Remote Interpreting/Video Relay Service (VRI/VRS) deployment program to 25 sites. The VRI/VRS systems allow employees who are deaf or hard-of-hearing to communicate with supervisors, coworkers and others in real-time without on-site interpreters or text-based telephone systems. This year Phase 2 added 22 sites nationwide. The systems are now available to more than 1,100 deaf and hard-of-hearing employees.

D. VETERANS EMPLOYMENT

The Postal Service is one of the nation's largest employers of veterans and disabled veterans. In 2006 the Postal Service employed 185,025 veterans. Of this group, 62,504 received injuries while in uniform and,

of that number, 17,172 were rated at 30% or more disabled. The Postal Service has established processes for the recruitment and advancement of veterans.

E. NATIONAL DIVERSITY RECOGNITION PROGRAM

In 2006 the National Awards Program for Diversity Achievement celebrated its 10th anniversary with record participation. A total of 1,026 nominations were submitted exceeding the 950 received in 2005. This year's program recognized 21 employees, bringing to 350 the total number of employees recognized.

F. MEETING THE NEEDS OF DIVERSE CUSTOMERS

The more Postal Service employees know about business and customer needs, the better they can market products and services to diverse communities. Leveraging diversity will prove to be a critical component in making the Postal Service the best value in the marketplace.

The Postal Service developed an online multicultural outreach toolkit that was made available in nine languages to meet the mailing needs of diverse customers. The toolkit is designed to engage Postal Service employees in the business by providing the tools needed to effectively communicate products and services with valuable emerging markets.

3. Compensation and Benefits

A. PAY COMPARABILITY

1. BARGAINING UNIT EMPLOYEES' PAY AND BENEFITS

The average annual pay and benefits for career bargaining unit employees was \$62,348 this year, excluding corporate-wide expenses which cannot be attributed to individual employees. In an attempt to achieve compensation rates comparable with those in the private sector, negotiations between the Postal Service and unions continue to apply the principle of moderate restraint set forth in past interest arbitration awards for those units that have compensation exceeding private sector levels.

2. NONBARGAINING UNIT EMPLOYEES' PAY AND BENEFITS

Pay for supervisors, postmasters, and other nonbargaining employees provides an adequate and reasonable differential between first-line supervisors and bargaining-unit employees, and meets or exceeds comparability standards. Nonbargaining-unit employees participated for a third year in the Pay-for-Performance (PFP) process. A key component of PFP is the ability to provide meaningful distinctions in performance ratings based on objective indicators of performance. Employees are evaluated against unit, corporate, and individual performance objectives. The unit and corporate indicators are established and measured in the National Performance Assessment (NPA) system. NPA metrics reflect a balance of service, revenue, cost, and workforce-related priorities. Individual core requirements provide a mechanism for employees to be evaluated for their personal contributions to unit and corporate success. Employees meet with their evaluator to discuss and define specific target outcomes. The Postal Service Intranet serves as the key tool for communicating and implementing PFP and has dramatically improved efforts to provide timely and specific feedback on individual performance. The Performance Evaluation System (PES) collects goal and accomplishment data, and calculates end-of-year ratings based on achievements against targets.

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3. EXECUTIVE PAY AND BENEFITS

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

4. PAY-FOR-PERFORMANCE

All phases of the Pay-for-Performance (PFP) merit program are fully automated in the Performance Evaluation System. More than 73,000 EAS and PCES employees now participate. PFP enables employees to concentrate on achievements within their control and their specific responsibilities within the organization. Employees learn at the beginning of the evaluation period where priorities lie and what is expected of them. PFP introduces a heightened awareness of performance distinctions, and individuals are recognized for the contributions they make to unit and corporate performance. Automatic or across-the-board pay increases have been eliminated for all executives and nonbargaining employees.

B. LEAVE PROGRAMS

Postal Service employees are provided both annual and sick leave at the same rates as other federal sector employees. However, postal employees have a higher annual leave carryover limit. Earned annual leave may be donated to other career or transitional employees who have exhausted their own leave due to serious health conditions. This year employees donated more than 236,500 hours of annual leave.

Career nonbargaining-unit employees and some bargaining-unit employees may participate in a leave exchange program, which allows a portion of annual leave that would otherwise be earned in the following year to be exchanged for cash. Approximately 22,800 employees participated in the leave exchange program.

Under the Family and Medical Leave Act (FMLA) eligible employees may take up to 12 weeks off from work for covered conditions. Employees may use annual leave, sick leave, or leave without pay in accordance with applicable collective bargaining agreements and current leave policies. Postal Service FMLA policy applicable to all career employees allows the use of 80 hours of accrued sick leave for dependent care.

C. HEALTH INSURANCE

The Postal Service paid health care contributions for current employees totaling \$5.3 billion representing 7.4% of the Postal Service's total pay and benefits. The Postal Service continued to pay most of the premium cost of employee health benefit coverage. When career employees enroll in the Federal Employee Health Benefits Program, their share of health benefit premium contributions is automatically made with pretax payroll deductions.

Under the Omnibus Budget Reconciliation Act of 1990, the Postal Service is required to fund a share of Federal Employee Health Benefit premiums for retirees. The Postal Service's cost of funding health care benefits for postal annuitants and their survivors in 2006 was \$1.6 billion. The Postal Service is the only federal agency to directly fund retiree health benefits.

D. LIFE INSURANCE

Life insurance coverage for postal employees is provided through the Federal Employees' Group Life Insurance program. The Postal Service assumes the full cost of basic life insurance for eligible employees. The Postal Service's cost for employee life insurance was \$200.1 million. The Postal Service's cost for funding life insurance for postal annuitants and their survivors was \$15.7 million.

E. RETIREMENT SYSTEMS

Postal employees, like other federal career employees, are covered by the Civil Service Retirement System (CSRS), the Federal Employees' Retirement System (FERS), or CSRS Offset — all administered by the Office of Personnel Management. The 696,138 employees covered by these federal retirement programs at the end of 2006 were as follows:

Table 1-3 Retirement Systems and Participation

Retirement Plan	Employees	% of Employees	Retirement Contribution	
			Retirement Fund	Social Security
CSRS	157,945	22.7	7.0% of basic pay	NA
FERS	530,043	76.1	0.8% of basic pay	6.2% of gross pay
CSRS Offset	8,150	1.2		

Career employees covered by FERS and by CSRS Offset and noncareer employees are also subject to Social Security taxes. The cost to the Postal Service of paying the employer share of Social Security taxes for current employees was \$1.8 billion.

CSRS and FERS both exceed the private sector comparability standard but are required benefits under the Postal Reorganization Act. Factors that contribute to the generosity of these plans include the prescriptive nature of the pension entitlement formula, the availability of full benefits as early as age 55, and the full or nearly full indexing of benefits to inflation. The Postal Service is the only agency to fully fund the costs of its CSRS pension obligations.

F. THRIFT SAVINGS PLAN

All career employees may participate in the Thrift Savings Plan (TSP), which is administered by the Federal Retirement Thrift Investment Board. As of the end of 2006, 96,532 CSRS and CSRS Offset employees and 419,731 FERS employees were participating in the TSP. During 2006, the Postal Service administered the TSP Catch-Up provision for eligible TSP participants age 50 and older. This program allowed an additional \$5,000 of tax deferred basic pay to be contributed to the TSP. At the end of 2006, 7,730 CSRS and CSRS Offset employees and 11,357 FERS employees were participating in the TSP Catch-Up program.

The Postal Service makes agency contributions to the TSP for employees covered by FERS. The Postal Service cost for TSP agency contributions for current employees was \$960 million.

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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. First offered in 1992 to certain nonbargaining unit employees, FSAs are now available to all employees. Employees were enrolled as follows:

Table 1-4 Flexible Spending Enrollment

Type	Employees	Average Annual Contribution
Health Care	86,406	\$1,812
Dependent Care	6,151	\$2,502

4. Workplace Environment

A. VOE SURVEY

Every quarter, one-fourth of career employees receive the Postal Service's Voice of the Employee (VOE) survey at their work locations. Participation is voluntary. Employees are given time on-the-clock to complete the surveys and seal them in postage-paid envelopes that are mailed to the contractor for data analysis and quarterly reporting. Six of the questions are used as key indicators of workplace environment factors that can impact employee performance and business outcomes. Survey results help identify organizational issues and establish improvement strategies. For 2006 the national employee response rate was 64%. The national index score was 63.4% favorable, down slightly from 63.7%.

B. EMPLOYEE ASSISTANCE PROGRAM/WORKPLACE ENVIRONMENT IMPROVEMENT

The Postal Service Employee Assistance Program (EAP) provides free, voluntary, confidential, in-person counseling services to employees and family members from licensed, professional counselors. Counselors are available 24-hours a day, 7-days a week, in convenient locations to assist employees and family members with difficulties that affect their personal lives and their work. Issues typically include emotional, financial, legal, chemical dependency, marital, and family matters.

EAP continued to provide consultation to managers and supervisors regarding issues not only involving individual workers but also the environment where they work. Ongoing preventive efforts are in place to assist employees at all levels in managing difficult situations, such as manager coaching and educational seminars on communication and stress management. EAP also provides key support in areas such as defusing issues and conducting grief groups after a critical incident (e.g., suicide, hurricane, armed robbery, and accidental death).

In 2006, 53,500 employees and family members received counseling, information, and consultation from EAP. Of the more than 22,000 employees who received counseling, 49% reported some type of problem that affected their work performance. EAP staff responded to 342 critical incidents and provided assistance to more than 16,000 employees after these incidents. In the aftermath of the hurricanes in the fall of 2005, EAP staff visited affected facilities more than 400 times to provide support.

Health and wellness seminars and training opportunities on topics ranging from stress management, to elder care, to substance abuse were provided to more than 37,000 employees.

C. VIOLENCE PREVENTION AND CRISIS MANAGEMENT

The Workplace Environment Advisory Committee is composed of representatives of Postal Service Human Resources, unions, and management associations. Working closely with the Postal Inspection Service and EAP/Workplace Environment Improvement (WEI), this committee uses a standard protocol to identify potential "troubled work sites." These are Postal Service sites that may be susceptible to threatening or other undesirable behavior as a result of individual or systemic problems. In addition, EAP/WEI assists the field in ensuring that local threat assessment and crisis management teams are in place and that desired training is provided. Finally, EAP/WEI staff members continually respond to potential threats and crisis incidents to ensure prompt response, swift resolution, and maximum safety of Postal Service employees.

D. EQUAL EMPLOYMENT OPPORTUNITY

The Equal Employment Opportunity (EEO) function was reorganized into two components: the National Office of EEO Compliance and Appeals Programs, which handles EEO policy and informal complaint processing, and the National EEO Investigative Services Office (NEEOISO), which oversees the formal EEO complaint process. The reorganization brings EEO activity directly to the attention of the highest levels of the organization so that issues and barriers to workplace relationships are identified and addressed. It also strengthens accountability in the EEO system, promotes early resolution of workplace disputes, and supports strategies to improve the workplace environment. The separation of the informal and formal processes allows each group to concentrate their efforts and apply the most appropriate tools.

The National Office of EEO Compliance and Appeals Programs oversees all EEO field offices. Field offices handle the informal complaint process including EEO counseling and alternative dispute resolution programs such as the REDRESS mediation program (Resolve Employment Disputes Reach Equitable Solutions Swiftly). In 2006 employees elected mediation in 82% of eligible cases; 73% of those complaints were resolved. Throughout the year, training was held for supervisors and managers on the importance of equal employment opportunity, open communication, and the benefits of resolving complaints at the lowest possible level. The timeliness of processing informal complaints improved from 68% in 2004 to 98% last year. Additionally, 2006 showed that success at attempts to resolve formal complaints dropped 12%, an indication that more issues are being resolved earlier in the process.

The Postal Service's goal is to produce high quality and timely complaint processing in accordance with Equal Employment Opportunity Commission regulations. NEEOISO implemented a centralized intake system for EEO complaints, using a toll-free nationwide number to record EEO contacts. Additionally, NEEOISO began processing final agency decisions and hearing requests. The use of contract investigators and final agency decision writers helps maintain the neutrality of the investigative and decision process. NEEOISO is now providing services to other federal

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agencies on a fee-for-service basis. NEEISO completed 99% of all investigations, reduced the average time to issue a merit decision to 30 days, and processed more than 11,000 requests for EEO counseling.

E. NATIONAL SEXUAL HARASSMENT PREVENTION

Education is the key to Postal Service efforts to assure a workplace free of unlawful and inappropriate conduct. During 2006, the following actions were taken to support ongoing efforts to prevent sexual harassment:

- *The Postal Service Policy on Workplace Harassment** was updated and revised to include all claims of harassment. It describes the transition of responsibility from the Postal Inspection Service to the Office of Inspector General. It also incorporates information with reference to the new toll-free number for the Equal Employment Opportunity Office centralized intake center.
- *The Postal Service Policy Statement on Sexual Orientation, Gender Identification and Gender Stereotyping*** prohibits harassment of all gender nonconforming individuals and requires management action in the face of any such harassment. Poster 157, *Our Diversity is Our Strength*, was distributed to all postal facilities to reinforce this policy.
- The training program, *Harassment: Initial Management Inquiry Process*, was developed to give managers and supervisors the understanding and skills necessary to respond to harassment complaints, including how to maintain the appropriate level of documentation. This training complements the June 2005, Publication 552, *Manager's Guide to Understanding Sexual Harassment*.
- Workplace Harassment Awareness and Prevention training was developed and conducted for the Office of Inspector General.

* Formerly Postal Service Policy on Sexual Harassment

** Formerly Postal Service Policy on Sexual Orientation

F. DEPENDENT CARE

Under the terms of a memorandum of understanding with the American Postal Workers Union (APWU), the Postal Service maintained a contract with a vendor to provide a dependent care resource and referral service to management and APWU-represented employees. The service allows employees to get assistance in locating dependent and elder care resources, as well as offering a variety of options to help balance work and home life.

G. COMBINED FEDERAL CAMPAIGN

The Postal Service joins other federal agencies in the Combined Federal Campaign drive each fall. In the Fall 2005 campaign, postal employees pledged a total of \$39 million for calendar year 2006 to the charities of their choice. The average employee gift was approximately \$240. The percentage of participation among employees was 24%.

H. POSTAL EMPLOYEES RELIEF FUND

The Postal Employees Relief Fund (PERF) is a humanitarian effort administered jointly by the Postal Service and each of the unions and management associations. PERF is supported financially by Postal

Service employees primarily through the payroll deduction program of the Combined Federal Campaign. Since its inception in 1990, PERF has assisted more than 5,000 employees and provided approximately \$7 million in humanitarian grants. PERF continues to serve a vital role in the recovery effort for employees living and working in all parts of the country.

PERF provided valuable support and financial assistance to postal employees and their families throughout the country who experienced damage from house fires as well as property loss resulting from natural disasters such as floods, hurricanes, and tornadoes. The impact of last year's hurricanes has escalated the number of requests for assistance in 2006.

I. SAFETY AND ENVIRONMENTAL PROGRAMS

In 2006 the Postal Service maintained significant improvement in its safety program. Accident reduction plans targeted the most serious and prevalent accident causes, employees were provided information on how to avoid injuries and illnesses through safety talks, videos, and publications. The award winning *Safety Depends on Me* video campaign, part of the Postal Service's overall employee safety and health communication program, provides employees with safety and health information. The Occupational Safety and Health Administration (OSHA) 2006 injury and illness frequency rate for the Postal Service was 5.6 per 100 employees. This is down 7.6% from last year and equates to 3,462 fewer OSHA injuries and illnesses. Since FY 2001, the Postal Service has reduced the total number of OSHA injuries and illnesses by -30,305, a 43% reduction. The Postal Service motor vehicle accident frequency rate was 9.90 per million miles, down 4.1% from last year. Since 2001, the Postal Service has reduced its total number of motor vehicle accidents by 3,278, a 12.7% reduction.

The Postal Service continued to improve emergency preparedness and meet safety requirements mandated by the Department of Homeland Security. The safety and environmental functions supported hurricane response and recovery efforts by conducting safety and health assessments of 80 hurricane-damaged facilities. In addition, protective equipment, safe working guidance for employees, and guidance and resources for decontamination of facilities, equipment, and mail were also provided.

J. VOLUNTARY PROTECTION PROGRAM

The Postal Service continues to partner with OSHA to implement the Voluntary Protection Program (VPP). VPP recognizes and encourages excellence in occupational safety and health protection. In order to qualify for VPP certification, a facility must have comprehensive safety management systems, and the employees assigned to the facility must be actively involved in anticipating, evaluating, and controlling potential safety and health hazards. OSHA recognizes only those facilities that have implemented the best safety and health programs. The Postal Service has 100 worksites recommended or approved in VPP. The program is being implemented through the national, area, and local joint labor-management safety committees.

K. ERGONOMIC RISK REDUCTION PROCESS

The Ergonomic Risk Reduction Process (ERRP) is designed to reduce both the number and severity of musculoskeletal disorders, build labor/management teams with ergonomic skill, and cultivate partnerships to identify

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and control ergonomic risk, among the Postal Service, OSHA, the National Postal Mail Handlers Union (NPMHU), and the APWU. The partnership agreement, signed in April 2003, was initially for a 3-year period. On July 31, 2006 the partner agreement was extended for an additional 2 years. To date, 88,107 postal employees at 120 facilities have received training in ERRP. Since its inception in 2003, ERRP teams have analyzed 7,277 tasks, resolved 5,393 tasks, and implemented 3,652 fixes locally. ERRP is scheduled to be implemented in 32 sites in 2007 and an additional 31 sites in 2008.

Customer Service employees have also requested an ergonomic process to assist in the identification and reduction of musculoskeletal disorders. The organization of ERRP for Customer Service differs from the plants since CS ERRP is not confined to a single building. A model for CS ERRP was developed in the Albany District and successfully tested in the San Diego and Bay Valley Districts in 2005. As the Customer Service ERRP process was refined, the Hawkeye District implemented the process in 2006. Additional districts are being considered for CS ERRP implementation next year.

L. INJURY COMPENSATION

The Postal Service had a 5% increase in workers' compensation chargeback expenses from the Department of Labor, Office of Workers' Compensation Programs (OWCP), compared with 2005 expenses. The total cash payout was \$883 million.

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 employment. The program resulted in placement in the private sector, retirement, or reduction in compensation payments for 239 former employees. Annual compensation costs have been reduced by more than \$16.2 million since inception of this process, known as the Vocational Rehabilitation Process.

In continuing efforts to reduce workers' compensation medical costs, the Postal Service implemented two new initiatives. The Pharmacy Card Program was introduced, allowing employees with work-related injuries to receive pharmacy discounts. Working in collaboration with OWCP and the Postal Service's Office of Inspector General, the Duplicate Medical Bill Review project was initially launched in one OWCP district office in 2005 to identify and recover medical overpayments made to providers. This project has been rolled out to an additional eight of twelve OWCP district offices. Medical overpayments in the amount of \$3.9 million have been identified during 2006.

Money recovered from pursuit of third-party claims and overpayments are credited to the Postal Service by OWCP. Ongoing efforts with the Credit Recovery program attained \$39.9 million in 2006, which surpassed the recovery target of \$37 million.

M. WORKERS' COMPENSATION FRAUD

Postal inspectors and the Office of the Inspector General (OIG) are responsible for identifying fraud in the Workers' Compensation Program and seeking resolution. The resolution may be an arrest, removal from duty, job suspension, withdrawal of a claim by the claimant, or the reduction or discontinuance of an employee's compensation benefits (as determined by the Department of Labor). Postal inspectors and the OIG

also investigate and identify fraud during the period that injured workers receive continuation of pay (COP) from the Postal Service and before they progress to the Department of Labor's compensation rolls.

Investigations identified 528 individuals alleged to have defrauded the workers' compensation program, resulting in long-term cost avoidance and COP savings of \$87.7 million. The Inspection Service and the OIG partnered on 83 of these identifications, which resulted in more than \$17.9 million in avoided compensation costs.

Table 1-5

Workers' Compensation Fraud

Front-end schemes resolved*	324
Front-end cost savings*	\$14,633,956
Long-term schemes resolved**	204
Long-term cost avoidance**	\$73,017,341
Arrests	18
Total Number of Cases	528
Total	\$87,651,297

*"Front-end" refers to fraudulent workers' compensation claims which terminate as a result of Inspection Service (or partnership) investigation prior to involvement by the US Department of Labor - Office of Worker's Compensation Programs.

**Long-term cost avoidance is calculated based on an actuarial lifetime.

Investigative responsibility for workers' compensation fraud was fully transitioned from the Inspection Service in May 2006. The Inspection Service transferred leads, investigative data, and personnel resources to the OIG. The Inspection Service maintained responsibility for previously opened investigations awaiting final reports, administrative actions by the Postal Service or Department of Labor, or completion of criminal prosecutive action.

N. HOMELAND SECURITY AND EMERGENCY PREPAREDNESS

1. BIOHAZARD DETECTION SYSTEM AND RELATED PROGRAMS

The Biohazard Detection System (BDS) provides an early warning of the potential threat of a biohazard, allowing an immediate evacuation and containment response and reducing the risk of exposure to postal employees and the public. In support of the program, the Postal Service conducted numerous full-scale, national BDS exercises involving local first responders. In 2006 Incident Command System (ICS) software was deployed to be utilized in the event of an actual BDS incident with training provided to postal inspectors nationally.

To date, 281 postal inspectors have been certified and equipped as Hazardous Waste Operations and Emergency Response technicians able to respond to and conduct BDS crime-scene investigations. Presently, there are 170 postal inspectors certified to operate advanced screening equipment to determine if unknown, suspicious substances found in the mail are nonhazardous. Continued training was available to all postal inspectors on chemical, biological, radiological, nuclear, and explosive

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response. More than 2,494 responses were made by postal inspectors involving suspicious substances in the mail.

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

There is ongoing participation in national emergency communication tests as part of the Continuity of Operations Plan to ensure that viable communications continue to exist between the Postal Service and other federal agencies in the event of an emergency. To enhance screening capabilities of postal inspectors responding to suspicious substances found in the mail, 88 field test screening units have been deployed throughout the country. In addition, response vehicles and mobile command centers have been deployed to serve as an integral asset in response efforts.

Postal inspectors serve as liaisons with three federal agencies (Central Intelligence Agency, Federal Bureau of Investigations, and the Department of Homeland Security (DHS)) to collect intelligence on threats that affect the Postal Service. These liaisons enable other agencies to work with the Postal Service to develop and analyze threat information as part of a comprehensive risk-management program. The Inspection Service conducts ongoing comprehensive threat and vulnerability risk assessments to secure critical infrastructure.

2. HEADQUARTERS WATCH DESK

The Postal Service's Headquarters Watch desk is fully operational 24 hours a day, 7 days a week. The watch desk receives information about critical events that may have national implications and require immediate action. When an event occurs, local Inspection Service personnel, other law enforcement agencies, and DHS immediately contact the Headquarters Watch Desk to report information for dissemination to Postal Service officials for appropriate action. The chief postal inspector and the deputy chief inspector of Headquarters operations determine notification requirements for the postmaster general, deputy postmaster general and chief operating officer, members of the Board of Governors, Inspector General, and other executive officers. When appropriate, the deputy chief inspector of Headquarters operations activates the Command Center to coordinate the incident, as was the case during the response to Hurricanes Katrina and Rita.

5. Workforce Planning

A. ENTERPRISE RESOURCE MANAGEMENT SYSTEM

The Enterprise Resource Management System (eRMS), which manages employee attendance at 98 field sites, is a key tool used to assure that operations are adequately and efficiently staffed. The Postal Service completed national deployment of the interactive voice response

technology component of eRMS and continues to provide enhancements to the software application. These enhancements improve complement management, cost effectiveness, and automated, system-generated reports. Key components are:

- Interactive Voice Response (IVR) System script and coding to accommodate more calls within the system.
- eRMS software enhancements continue to improve overall system performance and provide more user-friendly features.
- Continuing automation of reports which give more concise data and enhanced accountability for review on a quarterly basis.
- Continuing enhancements for the Time and Attendance Collection System (TACS) within eRMS, which provide real-time data to manage the daily business operations.

Efforts to integrate eRMS with TACS, the employee self-service Web site *LiteBlue*, and injury compensation reporting are ongoing. These enhancements to the application are expected to provide users with an extensive and robust resource tool in 2007.

B. HUMAN CAPITAL ENTERPRISE/HR SHARED SERVICES

The Postal Service is tasked with developing an integrated Human Capital Enterprise/HR Shared Services (HCE/HRSS) environment that increases efficiency, while assuring high quality service for postal employees. The new technology and standardized, streamlined business processes support the recently opened Human Resources Shared Service Center (HRSSC) in Greensboro, North Carolina. When completed, the new environment will result in one fully-integrated system that includes a shared services center and enhanced self-service options that give employees access 24-hours a day, 365-days a year.

HCE/HRSS successfully partnered with Headquarters' business owners and field practitioners to complete Phase 1 of a three-phase process. This includes moving the benefits and compensation, retirement and separation, and EAS and associate supervisor selection processes for more than 700,000 employees to a shared services center. In support of the change, the Postal Service hosted *PostalPEOPLE* fairs in major plants. More than 150,000 employees attended the fairs to learn how to manage personnel transactions.

Phases 2 and 3 of the migration of human resource functions will move organization management, job bid management, and eRecruitment to the HRSSC. Other activities included in the *PostalPEOPLE* initiative consist of safety and injury compensation management, the electronic official personnel folder, and unemployment compensation claims. The Complement Management System will be replaced when the Human Capital Enterprise System (HCES) is implemented for all districts next year.

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6. Labor Relations

A. COLLECTIVE BARGAINING

The Postal Service has nine collective bargaining agreements with seven unions covering approximately 674,000 career and non-career employees. Negotiations with unions cover wages, benefits, and conditions of employment.

The Postal Service entered into negotiations with its four largest unions, the National Association of Letter Carriers, AFL-CIO (NALC), American Postal Workers Union, AFL-CIO (APWU), National Rural Letter Carriers' Association (NRLCA), and National Postal Mail Handlers Union (NPMHU) at the end of August 2006. This marked the first time the Postal Service had negotiated new contracts simultaneously, yet separately. The Postal Service will also enter into negotiations with two smaller bargaining units represented by the APWU. The Information Technology and Accounting Service Center (IT/ASC) agreement covers computer and accounting employees at IT/ASC. The Operating Services Division contract covers maintenance employees primarily at Headquarters. The two collective bargaining agreements covering nurses and a small number of employees represented by the International Association of Machinists were extended through August 2007 and February 2007, respectively.

The Postal Service and the National Association of Letter Carriers (NALC) continued joint contract application training and Dispute Resolution Process (DRP) support by delivering training to nearly 240 Postal Service and NALC representatives responsible for addressing and resolving disputes locally. This training was cooperatively developed by the national parties and has been instrumental in reducing disputes and improving relationships. The Postal Service and NALC have also jointly developed an intervention process that has been used successfully to help local parties form a more cooperative and productive labor-management relationship.

Also during 2006, the Postal Service and the National Postal Mail Handlers Union (NPMHU) co-hosted an annual Quality of Work Life Conference for the ninth consecutive year.

B. CONSULTATION WITH MANAGEMENT ASSOCIATIONS

Consultations were conducted with each of the management organizations representing postmasters, managers, supervisors, and other nonbargaining employees. These sessions presented an opportunity for the organizations — the National League of Postmasters, the National Association of Postmasters of the United States, and the National Association of Postal Supervisors — to participate directly in the planning, development, and implementation of programs and policies impacting approximately 73,000 managerial employees. National officers of the three organizations collaborated with postal management in support of this effort.

C. COMPLEMENT MANAGEMENT

The Postal Service continually tracks complement and workforce-related indicators. Complement correlation trends are used to evaluate the success of current staffing with core business processes. The Web-based Complement Information System (WebCOINS) program, which provides access to employee information, had several functional improvements this year. The number of active WebCOINS users has grown to 8,313. The Southwest Area best practice program, webTRAC, was made available

to all areas for tracking casual hiring and maintaining compliance with contractual obligations.

Incremental Complement Management (ICM) was developed in 2006 as a user-friendly tool for Operations functions to manage complement at a plant by day of the week and by operation code level. ICM is primarily used as a process to assist in making beneficial plant staffing and overtime decisions.

C. Service to Small or Rural Communities

An important facet of the *Postal Reorganization Act of 1970* was to ensure effective postal services to residents of all communities. A change in community postal needs or the loss of suitable facilities may lead to the closing of a Post Office facility or its consolidation into a station, branch, or contract postal unit (CPU). Retail optimization is a dynamic process that establishes the decision-making criteria for updating the retail network. It takes into account the many ways in which retail services are made available to postal customers. These include counter services at Post Offices and CPUs, stamps-only sales at thousands of commercial retailers and ATMs, self-service through vending and the Automated Postal Center, online services using *usps.com*, and outgoing mail pickup and other services provided by carriers at customers' homes and places of business.

As changes occur that affect the network, such as a change in operating hours, the Postal Service uses a variety of media to inform customers, employees, management organizations, and labor unions. Before a Post Office is discontinued or consolidated, the Postal Service follows a statutory procedure including customer notice and appeal rights. In practice, few Post Offices are closed or consolidated. In an average year about 100 of approximately 28,000 Post Offices might be closed. Historically, fewer than 10% of the decisions to close a Post Office have been appealed to the Postal Rate Commission (PRC), which in turn has remanded fewer than 1% of the total annual closures to the Postal Service for further consideration.

D. Postal Cost Apportionment and Postal Ratemaking Developments

1. Postal Rate and Fee Changes: Docket No. R2006-1

On May 3, 2006, the Postal Service filed an omnibus rate case with the Postal Rate Commission (PRC) requesting an Opinion and Recommended Decision for changes in postal rates and fees. The Postal Service requested the changes to cover a projected revenue shortfall of about \$5.9 billion in fiscal year 2008. Included among the proposed rate changes are a 42-cent stamp for the first ounce of First-Class letters, and a \$4.65 rate for Priority Mail weighing up to one pound. The Postal Service also proposed a new classification for a "forever stamp," which would always be valid for the first ounce of First-Class Mail letters regardless of subsequent rate changes; new pricing for certain Priority Mail pieces based on the size of the mailpiece as well as its weight; and a more detailed rate design for First-Class Mail that includes rates based

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on shape. The Postal Service supported its request with a wide range of financial, operational, and other studies, including testimony and exhibits of 41 expert witnesses. The PRC is expected to submit its Recommended Decision to the Governors in March 2007.

2. Parcel Return Service: Docket No. MC2006-1

On October 17, 2005, The Postal Service filed a request with the PRC seeking a recommendation establishing Parcel Return Service (PRS) as a permanent classification. In its request, the Postal Service proposed the same rates and fees that were implemented January 8, 2006, as a result of Docket No. 2005-1. The Postal Service had implemented PRS as a 2-year experiment as a result of Docket No. MC2003-2. PRS provides a low-cost, user-friendly method by which a retail customer of a mail-order or online merchant may return a purchased item. The customer need only complete a merchant-supplied mailing form and deposit the item with the Postal Service. Then, the merchant or its agent collects the returned item at a designated delivery unit or bulk mail center.

The proposal for permanent PRS was similar to the experimental service, except that it did not include Bound Printed Matter (BPM) return service since no customers used PRS for BPM during the experiment. On January 17, 2006, the Postal Service filed an unopposed Stipulation and Agreement settling the case. The PRC issued an Opinion and Recommended Decision approving the Stipulation and Agreement on March 3, 2006. The Governors approved the PRC's recommendation on March 22, 2006, and PRS was implemented as a permanent classification on April 2, 2006.

3. Repositionable Notes Minor Classification Change: Docket No. MC2006-2

On January 12, 2006, the Postal Service filed a request with the PRC to extend the authorized period for the Repositionable Notes (RPNs) experimental classification for up to 1-year beyond the original April 3, 2006, expiration date. RPNs are Post-It type labels that mailers affix to the outside of mailpieces. In Docket No. MC2004-5, the Postal Service requested and received approval to charge a fee for RPNs during a 1-year experiment. On January 12, the Postal Service filed a request to extend the RPN experiment's term for an additional year to allow evaluation of a PRC-commissioned white paper on RPN pricing. The PRC approved the request to extend the term of the RPN experiment on March 20, 2006. The Governors approved the PRC recommendation on March 22, 2006, and it was implemented on April 2, 2006.

4. Washington Mutual Bank Negotiated Service Agreement: Docket No. MC2006-3

On March 29, 2006, the Postal Service filed a request with the PRC asking that it recommend classifications, rates, and fees associated with a proposed baseline negotiated service agreement (NSA) with Washington Mutual Bank, Inc. The NSA establishes declining block discounted rates for First-Class Mail volume. Unlike prior NSAs, the Washington Mutual Bank NSA does not establish a cost-savings cap. Instead, the NSA incorporates risk mitigation features, including a penalty-backed solicitation mail volume guarantee, as well as a penalty-backed First-Class Mail volume guarantee for the first year of the agreement. The NSA also provides incentives for the substitution of electronic notices for physical return of undeliverable-as-addressed pieces. On August 17,

2006, the PRC's Office of the Consumer Advocate (OCA) proposed that the Commission recommend the application of an alternative financial model to evaluate the effects of the Washington Mutual NSA. The model was proposed initially by the Commission in its Opinion and Further Recommended Decision on the Bank One Corp. NSA, see item 14 Complaint on Stamped Stationary: Docket No. MC2004-3.

5. Express Mail Second Day Service Classification Clarification: Docket No. MC2006-4

On April 18, 2006, the PRC instituted Docket No. MC2006-4 to clarify the Domestic Mail Classification Schedule (DMCS) language pertaining to Express Mail second-day service. The Postal Service provides guaranteed Express Mail service to certain locations on the second-day after mailing in situations where overnight service is not available. In some cases, delivery service is not available on the second-day after mailing (generally when the second-day after mailing is a Sunday or holiday), so the guarantee applies to the first delivery day following the second-day after mailing. The PRC proposed that the DMCS be changed to clarify the nature of the guarantee. On May 10, 2006, the Postal Service proposed language to clarify the nature of the guarantee and remove any ambiguities in existing DMCS language. The PRC recommended the Postal Service's proposed DMCS language changes on June 21, 2006. The Governors approved the PRC recommendation on June 30, 2006, and the language changes were implemented on July 1, 2006.

6. Periodicals Nominal Rate Minor Classification Change: Docket No. MC2006-5

On July 6, 2006, the Postal Service filed a request for a PRC Recommended Decision to relax one of the factors used in qualifying for Periodicals rates. The Postal Service proposed counting as paid circulation any subscription that pays at least 30% of the basic annual subscription rate (rather than the current 50%). The proposed change would enhance marketing and pricing flexibility for Periodicals publications and help the creation of new publications. On August 30, 2006, the PRC recommended the Postal Service's proposal, consistent with a settlement agreement. The Governors approved the recommended change on September 12, 2006 and it was implemented on September 13, 2006.

7. Extension of Capital One Negotiated Service Agreement: Docket No. MC2006-6

On July 26, 2006, the Postal Service filed a request with the PRC asking that it recommend a 1-year extension of an existing NSA with Capital One Services, Inc. The existing NSA established declining block discounted rates for First-Class Mail volume and provided incentives for the substitution of electronic notices for the physical return of undeliverable-as-addressed pieces. Because the agreement had been mutually beneficial to the Postal Service and Capital One, the parties favored extending the agreement for one additional year while negotiating a modified agreement to be filed in 2007. The proceeding was the first of its kind filed under the Commission's rules for extensions of an existing NSA agreement. On August 25, 2006, the PRC issued an Opinion and Recommended Decision recommending a 1-year extension of the NSA. The Governors approved the Commission's recommendations, and the extension was implemented on September 13, 2006. The NSA, as extended, may remain in effect until September 1, 2007.

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8. Stamped Stationery Classification: Docket No. MC2006-7

On August 24, 2006, the PRC instituted Docket No. MC2006-7 to receive and consider a request from the Postal Service to establish a classification and fee schedule for stamped stationery. In an accompanying order, in Docket No. C2004-3 (discussed below), the PRC held that all stamped stationery is a postal service and, therefore, must be defined in the DMCS with classifications and fees recommended by the PRC and approved by the Governors. Previously, the Postal Service treated certain types of stamped stationery as a nonpostal service with fees established independent of PRC purview. The PRC has established February 26, 2007, as the date the Postal Service must file its request.

9. Bookspan Corporation Negotiated Service Agreement: Docket No. MC2005-3

On July 14, 2005, the Postal Service filed a request for a PRC recommendation on rate and classification changes needed to implement a baseline NSA that the Postal Service had entered into with Bookspan. The NSA allows discounted rates for letters soliciting book club membership if Bookspan increases its volumes of such letters significantly. The Commission issued an Opinion and Recommended Decision on May 10, 2006, which the Governors approved on May 31, with implementation of the NSA on June 1.

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

On June 21, 2004, the Postal Service filed a request with the PRC seeking a recommendation on rate and classification changes designed to implement a 3-year NSA between the Postal Service and Bank One Corporation (Bank One). The PRC considered the Bank One NSA request under its rules for NSAs which are functionally equivalent (structured similarly to that of an existing NSA). The Bank One NSA was proposed as functionally equivalent to the baseline NSA with Capital One. The PRC issued an Opinion and Recommended Decision on December 17, 2004, which recommended changes to implement the NSA with Bank One, but placed a “stop-loss” cap on discounts available under the agreement, similar to the cap recommended for the Capital One NSA. On February 16, 2005, the Governors allowed the recommended rate and fee changes under protest, and returned the Opinion and Recommended Decision to the PRC for reconsideration, specifically to address the need for a cap on discounts. Implementation of the NSA, as recommended by the PRC, occurred on April 1, 2005.

On May 16, 2005, the Postal Service filed a Memorandum on Reconsideration which included three declarations discussing pertinent factual issues. On August 23, 2005, the PRC issued Order No. 1443 in which it declined to reopen the record to consider the declarations and requested comments on reconsideration based upon the existing record. On September 14, 2005, JP Morgan Chase & Co., a successor company to Bank One, petitioned the PRC to reopen the record. In Order No. 1450 (January 6, 2006), the PRC again declined to reopen the record.

Subsequently, the Postal Service and JP Morgan filed comments on reconsideration.

On April 21, 2006, the PRC issued its Opinion and Further Recommended Decision against changing the Bank One NSA classification, finding that the record supported imposition of a stop-loss cap on discounts. The PRC also responded to the Governors’ request for explicit guidance on several topics, including the conditions and proof necessary for the PRC to recommend a NSA incorporating declining-block discounts to stimulate new volume without a cap. The PRC also outlined a financial model for developing and analyzing such NSAs that relies on the demand characteristics of the type of mail eligible for the proposed discounts, rather than estimates provided by the mailer.

11. Denial of General Delivery Service Complaint: Docket No. C2006-1

On April 24, 2006, the PRC accepted for filing as a complaint (Docket No. C2006-1) the petition of a private individual, who claimed to have no permanent address and accordingly asserted a right to indefinite general delivery service. The complaint closely tracked a previous complaint case, Docket No. C99-2. Postal regulations provide that general delivery service is intended primarily as a temporary option. As late as the early 1990s, general delivery service in city delivery offices was expressly limited to 30 days. More recently, however, the Postal Service has provided indefinite delivery service for homeless customers, who often are unable to afford a Post Office box and do not have a residence that qualifies for carrier delivery service. Upon investigating the complainant’s situation, it appeared that some Post Offices had provided him indefinite general delivery service, while others had not. The Postal Service does occasionally terminate general delivery service when it becomes aware that a customer is eligible for or obtaining free delivery by some other method, such as carrier delivery or through a Post Office box. Since the Postal Service was unable to identify any other free delivery option available to the complainant, arrangements were made to provide him indefinite general delivery service at the Post Office of his choice. On this basis, the Postal Service moved for dismissal of the complaint, which the Commission granted in Order No. 1471, on July 11, 2006.

12. Complaint on Express Mail: Docket No. C2005-1

On February 18, 2005, a complaint was filed alleging that the Postal Service’s provision of Express Mail service violated the Postal Reorganization Act in several ways. Most of the complainant’s grounds revolved around the provision of Express Mail service on Sundays and holidays, and on the days preceding Sundays and holidays. The complainant also alleged that the Postal Service provided misleading information to the public concerning its Express Mail service, and that it uses unfair and inefficient acceptance practices. The Postal Service denied the complainant’s allegations that its provision of Express Mail service violated the act. On April 18, 2006, the PRC issued an order dismissing the complaint, though in a concurrent order the Commission initiated Docket No. MC2006-4 (discussed above) for the limited purpose of clarifying the DMCS language pertaining to the provision of Express Mail second-day service.

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13. Complaint on Electronic Postmark:

Docket No. C2004-2

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

On March 3, 2006, the Commission denied the motion to dismiss, taking the view that a hearing would be necessary to establish the material facts regarding the postal aspects of the service. Testimony was filed by the complainant and subsequently by the Postal Service. The case is pending before the PRC.

14. Complaint on Stamped Stationery:

Docket No. C2004-3

On June 24, 2004, a complaint was filed with the PRC concerning stamped stationery issued by the Postal Service on June 23, 2004. The stationery consists of sheets of paper imprinted with indicia that are representations of *The Art of Disney: Friendship* postage stamps. The complainant believes that the stationery is within jurisdiction asserted by the PRC in the 1970s, similar to stamped envelopes, stamped cards, and aerogrammes. The Commission issued two Orders on August 24, 2006, finding stamped stationery to be a postal service subject to its jurisdiction, and initiating a new docket (MC2006-7, discussed above) to receive a request by the Postal Service for a Recommended Decision establishing a classification and fee schedule for the service. The Commission's Order maintains the status quo with respect to sales of stamped stationery, pending the filing of a request and its consideration in the new docket.

15. Complaint on First-Class Mail Service

Standards: Docket No. C2001-3

On May 19, 2001, a complaint was filed with the PRC, alleging that, in 2000 and 2001, without first requesting a PRC Advisory Opinion, the Postal Service implemented, on a nationwide or substantially nationwide basis, changes in 2- and 3-day service standards for First-Class Mail service. 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.

The Commission issued a public report on May 17, 2006, finding that: the Postal Service implemented a nationwide realignment of 2- and 3-day service standards in calendar years 2000–2001 affecting customers throughout the continental United States; the implementation plan was materially different from the plan the Postal Service had previously declared it intended to use. Given this material difference, the Postal Service

had an obligation under Section 3661(b) to seek an Advisory Opinion prior to implementing these changes, and failed to do so; and Commission jurisdiction over service complaints under Section 3662 of the act extends to filings that allege a violation of Section 3661(b) requirements.

In addition, with respect to the delivery service resulting from the 2000–2001 realignment, the Commission found that the service has not been shown to be, in total, inadequate to meet the needs of the nation's mailers, but that in implementing the changes at issue, the Postal Service appears to have sought little or no direct input from customers about their service needs. The Commission found that, as a result, service resulting from the realignment cannot be said to be sufficient to meet those needs in all areas, as required by Section 403(b); and the Postal Service did not consistently adhere to the priorities set out in Section 101(e), which requires that it give the "highest consideration" to the expeditious transportation of important letter mail. Instead, administrative convenience resulted in mapping coverage of the 2-day standard exclusively in terms of surface transportation.

16. Evolutionary Network Development Service Changes, 2006: Docket No. N2006-1

On February 14, 2006, the Postal Service filed a request with the PRC, under Title 39, United States Code, Section 3661(b), seeking a non-binding Advisory Opinion on whether potential service changes expected to be implemented incrementally throughout the mail processing network would result in the provision of postal services consistent with the policies of the Postal Reorganization Act. The service changes, in the form of service standard upgrades or downgrades affecting numerous 3-digit ZIP Code origin-destination pairs, are expected to result from the implementation of a mail processing and transportation network realignment initiative. The objective of the initiative, called Evolutionary Network Development, is to reduce redundancy and inefficiency through the consolidation of some existing operations. The Commission has permitted discovery on the testimony filed in support of the Postal Service's request and has conducted hearings for the cross-examination of postal witnesses. After review of participant testimony and legal briefs to be filed in October 2006, the Commission issued its Advisory Opinion.

Two separate federal district court civil actions (in Washington, D.C. and Newark, New Jersey) have been initiated by the American Postal Workers Union, seeking to challenge the implementation of any related operational and service changes before the issuance of the Commission's Advisory Opinion.

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

A private individual filed a lawsuit in federal district court in Texarkana, Arkansas, seeking class action status against the Postal Service. In general the plaintiff alleged that the Postal Service failed to provide Priority Mail customers with the level of service they were led to believe they would receive when they paid Priority Mail rates for items weighing less than 13 ounces that were sent to destinations within three zones. The plaintiff raised four counts — three based on theories of contract, and one based on state statute. The Postal Service filed a motion to dismiss, in lieu of an answer, and plaintiff opposed the motion. On August 9, 2005, the judge dismissed the complaint, concluding that the plaintiff's claims

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essentially were about postal services received and/or rates paid and properly belonged before the PRC, not a federal district court.

The plaintiff then filed an appeal to the U.S. Court of Appeals, Eighth Circuit. The matter was fully briefed and the Eighth Circuit heard oral arguments in St. Louis, Missouri on March 17, 2006. On June 16, 2006, the Eighth Circuit affirmed the district court's decision. It held in a published decision that the Postal Rate Commission has exclusive jurisdiction over service complaints, and that LeMay's claims, while couched in contract, were really complaints about inadequate service.

18. Rulemakings

The PRC progressed with two Notice and Comment rulemaking proceedings to consider amendments to its Rules of Practice and Procedure. On January 16, 2004, the PRC proposed to incorporate into its rules a definition of postal services within the PRC's jurisdiction, as distinguished from nonpostal services, over which the PRC has no jurisdiction (Docket No. RM2004-1). The Postal Service did not oppose this initiative, but suggested several refinements to the proposed definition. The PRC issued its Order and Final Rule on January 4, 2006, defining postal services as: "the receipt, transmission, or delivery by the Postal Service of correspondence, including, but not limited to, letters, printed matter, and like materials; mailable packages; or other services incidental thereto."

On March 5, 2004, the PRC proposed to expand the amount of information regarding nonpostal services that the Postal Service would need to submit when filing a request for recommendations on general changes in rates, fees, and classifications (Docket No. RM2004-2). The Postal Service opposed this proposal, instead taking the view that the amount of information regarding nonpostal services currently required by the PRC's rules is fully sufficient to allow PRC review and evaluation of proposed postal rates, fee, and classification changes. Initial and reply comments from interested parties have been submitted in this docket, which is pending.

E. Transportation Policies

1. General

The Postal Service spent \$6 billion for mail transportation, including terminal dues, transit charges, and other international expenses discussed below. This is a \$608 million increase primarily related to fuel.

2. Domestic Transportation

A. HIGHWAY TRANSPORTATION

Approximately \$3 billion was spent for highway mail transportation. This represents a 12% increase primarily due to increases in fuel prices and mail volumes carried by highway transportation.

B. AIR TRANSPORTATION

Air transportation costs in 2006 totaled \$2.8 billion, an increase of 13% from 2005. This increase is a direct result of rising fuel costs and the shift of volume to dedicated airlift for service improvement. These costs include the use of domestic commercial airlines (passenger and freight) and dedicated networks.

The commercial air transportation contract, CAIR-06, started on September, 30, 2006, consists of seven individual contracts. This is a reduction from the CAIR-03 contract because only seven of the previously contracted 17 suppliers performed at an acceptable level and were deemed eligible to participate in CAIR-06. These contracts incorporate the use of carrier performance data to manage mail flows and service.

To stabilize air transportation costs, the FedEx transportation contract was renegotiated to reflect a more favorable pricing structure. The Postal Service also contracted with United Parcel Service to provide flexibility in scheduling and a more competitive transportation environment. Air to surface volume shifts have been pursued where service performance is maintained or enhanced.

C. RAIL TRANSPORTATION

Expenses for rail transportation were \$127.1 million, a 5.4% increase from 2005. This amount was paid to 11 railroad companies for service throughout the country.

D. WATER TRANSPORTATION

The cost of transporting mail to domestic offshore destinations by water was \$29 million, an a 1.5% increase from 2005.

3. International Transportation

A. INTERNATIONAL AIR TRANSPORTATION/INTERNATIONAL AIR DEREGULATION

The Postal Service continues to align its air transportation strategy with the global requirements of American businesses and consumers. The Postal Service spent \$223.9 million on international air transportation for mail destined to 191 countries. U.S.-flag suppliers received 78.2% of the total spent. The Postal Service is required to use U.S.-flag suppliers where available even when their rates are higher. The use of foreign-flag suppliers, particularly for airmail service, expands the Postal Service's ability to reach destinations where U.S.-flag suppliers do not provide the required service. The cost of military mail, reimbursed by the Department of Defense, decreased from \$468 million to \$449.6 million.

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.

The Postal Service OIG conducted a study of the international air transportation rate setting process and issued a white paper on June 29, 2006. The OIG concluded that regulation of international mail transportation rates and requirements that the Postal Service use U.S. flagged carriers "are vestiges of an earlier age of regulation. They are economically inefficient, and most stakeholders oppose them. Regulation unnecessarily raises costs for both postal ratepayers and taxpayers. The Postal Service should be free to purchase international air transportation the way it purchases any other form of transportation. If complete deregulation is not possible, we believe the Postal Service could achieve a more limited solution by encouraging the Department of Transportation to adopt a policy of regulatory forbearance."

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B. INTERNATIONAL SURFACE TRANSPORTATION

The cost of international surface transportation by ocean remained constant at about \$4 million. Ocean transportation suppliers are selected on the basis of a best value comparative analysis of proposals.

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

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

For the most part, settlements of terminal dues and transit charges are contingent upon both the Postal Service and a FPA accepting statistics with regard to the weights and number of mailpieces exchanged by the two countries. The actual settlement and payment of terminal dues or transit charges can occur a year or more after the service is performed. In order to record expenses associated with the current year, the Postal Service accrues an estimate of these expenses based on available weight and piece data by country. The Postal Service incurred \$382 million in terminal dues, Express Mail, transit charges, and other international expense unrelated to the transportation of mail. The comparable expense for 2005 was \$447 million.

4. Postal Service-Owned Transportation

The Postal Service-owned fleet is predominantly used to provide transportation for the “first and last miles” of its delivery network. Used primarily in urban and suburban locations, the fleet is augmented by highway contract routes and rural delivery where necessary and appropriate. In addition to providing delivery and mail processing support, the fleet includes vehicles used for law enforcement, plant and vehicle maintenance support, mobile Post Offices, and other support functions.

Table 1-6 Postal Vehicle Inventory

Vehicle Type	
Delivery and Collection (1/2–2 ton)	190,932
Mail Transport (Tractors and Trailers)	7,484
Administrative and Other	6,296
Service (Maintenance)	5,623
Inspection Service and Law Enforcement	3, 212
Mail Transport (3–9 ton)	2,457
Total	216,004

Table 1-7 Vehicle Operating Data

Operating Data	
Miles traveled	1,237,567,446
Miles per gallon	10.2
Cost per vehicle	\$5,130
Cost per mile	\$0.91

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 (MTEESC) program is an outsourced, integrated network of 22 MTE facilities that collect, sort, repair, store, and distribute MTE to internal and external Postal Service customers. The Mail Transport Equipment Support System, a redesigned Postal Service software application, integrates and manages the network.

F. Postal Service Facilities, Equipment, and Supplies

1. Environmental Programs

A. ENERGY PROGRAM

With 216,000 vehicles; more than 34,000 facilities; and large transportation contracts, energy is vital to Postal Service operations. A new Energy Initiatives function was created this year to ensure the Postal Service has a comprehensive plan to optimize energy use. This function will develop and manage an integrated strategic energy effort focused on reducing costs and use, ensuring that legal requirements are met, and supporting continuity of operations.

The Postal Service paid nearly \$2.4 billion in energy costs to process, transport, and deliver the mail. Postal energy costs increased 27%. Fuel accounted for 75% of total energy costs. Fuel costs increased nearly 32% and account for 84% of the 2006 increase. Utility costs increased 14%. The Postal Service’s energy strategies focus on both the supply and demand sides of energy management. Supply management focuses on reducing the cost paid for commodity fuels and utilities. The strategies that reduce demand concentrate on facilities and transportation.

Ten Shared Energy Savings contracts were awarded to contractors to conduct facility audits to identify improvements that make facilities more energy efficient. The contractors are responsible for capital and implementation costs and receive a share of the energy savings that result. Energy conservation contracts were awarded to six companies. The contracts will produce annual savings and provide environmental benefits. Other contracts with utilities in Northeastern states, Maryland, and Washington, D.C. will result in lower energy rates providing savings during the next 2 years.

In September 2006, the Association of Energy Engineers recognized the Postal Service’s achievements in this area with its *Corporate Energy*

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Management Program of the Year Award. Energy conservation activities were also recognized through the award of a *Presidential Award for Leadership in Energy Management* given to the Pacific Area Energy Program Committee (PAEPC) for delivering significant results in key areas such as energy efficiency and energy conservation, increased use of renewables, improved electric reliability, and reduced energy costs. Ongoing activities have resulted in more than \$108 million in completed energy efficiency and energy management retrofit projects, including development of the largest civilian agency stock of solar photovoltaic systems. These projects are already delivering annual cost savings of approximately \$9.4 million and annual energy savings of nearly 340 billion British thermal units (BTUs).

B. AIR AND ALTERNATIVE FUEL VEHICLE PROGRAM

Through performance-based partnerships with commercial air carriers, the Postal Service is balancing its service obligations and conservation goals. These contracts save on energy consumption and cost. The Postal Service operates the nation's largest alternative fuel vehicle (AFV) fleet with almost 36,000 AFVs, and each year acquires additional vehicles that run on cleaner-burning alternative fuels. The Postal Service requires that 75% of its new light-duty vehicles can operate on alternative fuels — a requirement that for 7 years exceeded standards of the Clean Air Act and the Environmental Policy Act. This year the Postal Service was honored with a White House *Closing the Circle Award* for its biodiesel utilization program.

C. ENVIRONMENTAL MANAGEMENT SYSTEM

In 2006 the Postal Service began upgrading and streamlining its Environmental Management System (EMS) standard and integrating its activities with the safety organization. EMS is a process for identifying and evaluating environmental and related business issues. The Postal Service now follows the ISO 14001 EMS attributes. The ISO standard has been adopted by the Universal Postal Union (UPU) and many competitors in the pursuit of environmental and operational excellence.

D. POLLUTION PREVENTION AND RECYCLING

The Postal Service annually purchases more than \$200 million worth of products with recycled content and recycles about one million tons of wastepaper, cardboard, plastics, cans, and other material. Many retail and philatelic products contain recycled material, including stamps, stamped envelopes, packaging materials and mail containers. At the end of the year, nearly \$9 million in revenue was generated by recycling. The Memphis Purchasing Service Center received a White House *Closing the Circle Award* honorable mention for its total waste management program.

The Solid and Hazardous Waste Program ensures that potentially hazardous and toxic wastes are handled in a way that safeguards health and the environment and meets legal mandates. The Postal Service is reducing municipal solid waste and industrial waste through its partnership with EPA's WasteWise Program, which challenges organizations to reduce waste in innovative ways. The Postal Service won the *EPA 2006 WasteWise Partner of the Year Award*, the program's highest honor, for the seventh year in a row.

E. ENVIRONMENTAL MANAGEMENT INFORMATION SYSTEMS

The Web-enabled Environmental Management Information System (EMIS) automated the planning, tracking, and reporting of Postal Service environmental business processes for compliance and auditing. It is used to track environmental compliance and collect and analyze data at all types of Postal Service facilities, including data on asbestos-containing materials, and storage tanks.

F. ASBESTOS MANAGEMENT

The national Asbestos Management Program policy documents were updated and strengthened. District asbestos program coordinators were identified. Employees were trained in the latest asbestos identification and management techniques and in collecting asbestos-related facility documents and placing them in the EMIS.

G. STORAGE TANKS

As required by the Energy Policy Act, the Postal Service submitted an Underground Storage Tank (UST) Inventory Report and Compliance Strategy to the EPA and Congress in August 2006. The Inventory Report contained specific data (e.g., location, compliance status, and point of contact) for each of the 440 federally-regulated USTs owned and operated by the Postal Service. This inventory of federally regulated USTs, along with an inventory of all other Postal Service storage tanks, continues to be maintained in EMIS.

2. Facilities

A. REAL ESTATE INVENTORY

Table 1-8 Real Estate Inventory

Inventory	
Total owned facilities	8,437
Total owned interior square feet	217,432,964
Total owned land in square feet	936,685,582
Total leased facilities	25,567
Total leased interior square feet	100,432,076
Total GSA/other government facilities	408
Total GSA/other government interior square feet	3,345,006
Rent paid, including taxes, on leased facilities	\$1,001,960,073

Chapter 1 Compliance with Statutory Policies

B. REALTY ASSET MANAGEMENT

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

Table 1-9 Realty Asset Management

Assets	Gross Revenues (\$ millions)
Leasing to private tenants	33.5
Leasing to government tenants	22.4
Sales of excess property	91.4
Total	\$147.3

C. FACILITIES PROJECTS

Table 1-10 Facilities Projects

Projects	Completed During 2006	Ongoing as of End of 2006
New construction, major renovations, and expansion projects	10	350
Building purchases	25	20
New lease construction	6	29
Other lease actions (e.g., alternate quarters, new leases, and lease renewals)	3,924	1,755
Expense repair and alteration projects	6,344	4,514
Capital repair and alteration projects	2,915	7,399

3. Supply Management

The Postal Service attributed nearly \$814 million in cost benefits to supply chain management activities. This was accomplished by benchmarking industry best practices, such as leveraging volume, standardizing requirements, expanding eBuy (a paperless requisitioning and ordering system), and participating in strategic partnerships with suppliers.

A. SUPPLY CHAIN MANAGEMENT INITIATIVES

A national contract was awarded to provide body repair and painting for the postal vehicle fleet, replacing approximately 122 separate contracts. The national contract allowed the Postal Service to establish uniform processes, specifications, and standards for the work while reducing the amount of labor required.

The Postal Service awarded a contract to First Script under which expenses will be reduced for prescriptions issued by the Office of Workers' Compensation (OWCP). Currently, the Postal Service spends approximately \$62 million per year on these prescriptions. First Script contracts with a network of pharmacies at a reduced fee schedule for both

medications and dispensing fees. The company will pass savings to the Postal Service that accrue from workers' compensation claimants use of the designated prescription network.

The Postal Service and Hallmark Custom Marketing, Inc., the supplier of ReadyPost packaging products sold in Post Offices, successfully implemented a Point of Sale Replenishment system in 2006. This is a perpetual inventory system by which item level orders to replenish product stock are placed electronically. ReadyPost sales revenue exceeded \$110 million, a result due in part to implementation of this system.

The Postal Service has increased the use of reverse auction software and conducted nearly 917 reverse auctions with an estimated contract value of nearly \$191 million with \$33 million in savings. More than 1.5 million local purchases were made through leveraged savings from existing national contracts using the eBuy catalog-ordering tool.

B. PURCHASING REFORM

The Postal Service completed its program of purchasing reform by publishing *Supplying Principles and Practices*, available to the public at <http://usps.com/purchasing/purchasingpubs/pubsmenu.htm>. The new principles and practices complement the purchasing regulations that the Postal Service adopted in 2005. These regulations focus on purchasing quality goods and services at fair prices and providing an expedited and inexpensive means of resolving supplier disagreements.

C. PURCHASES RELATED TO SECURITY AND ENVIRONMENTAL NEEDS

To address purchasing during emergencies, the Postal Service drew upon its experience from September 9/11, the anthrax attacks of 2001, and Hurricanes Katrina, Rita, and Wilma in 2005. Two contracts were awarded to implement a national-level "all hazards approach" to proactively prepare for emergency response and recovery needs.

D. MAJOR PURCHASES

The Postal Service awarded a new shared network air transportation contract to FedEx. This 7-year contract, expiring in 2013, replaced the FedEx 2001 contract which had been scheduled to expire in August 2008. Terminal handling services contracts that support the network were extended for an additional year.

Seven new 5-year air transportation contracts were awarded to commercial airlines. In a departure from past practice, in order to compete for an award, air carriers were required to prequalify before submitting bids. Past performance weighed heavily in the selection process and only the highest performers were invited to submit pricing and negotiate final contracts.

A contract for \$102.3 million was awarded to design and construct a new 803,000 square foot building, the Northeast Michigan Processing and Distribution Center (PDC). The contract amount includes more than \$19.8 million in mechanization for processing mail within the facility.

A contract for \$77.4 million was awarded to design and construct a new 830,000 square foot building; the Oklahoma PDC and its adjacent service buildings; a 29,684 square foot vehicle maintenance facility; and a 12,000 square foot storage building.

Chapter 1 **Compliance with Statutory Policies**

A firm fixed-price contract for 148 Automated Flat Sorting Machine Automatic Induction (AFSM-ai) systems was awarded for \$125.2 million. The AFSM-ai system improves flat mail preparation and operation on the AFSM 100 platform with a state-of-the-art preparation, transport, and feeding system. This contract is for the second phase of this program and is the second purchase of AFSM-ai systems from this supplier. The AFSM-ai Phase I program has completed deployment of 210 systems. The Phase II implementation of 148 additional units will reduce costs by decreasing staffing requirements for flat mail operations.

Negotiations were completed and a contract awarded for \$109.4 million for the purchase of additional delivery barcode sorter (DBCS) machines. This contract covers the purchase of 211 DBCS VI machines; 2,234 mid stacker modules; 797 stacker modules for existing Phase II–V machines; 4,500 tray carts for the DBCS VI; and 1,282 tray carts for the DBCS V.

A contract in the amount of \$45.2 million was awarded to develop and build a prototype of the Remote Encoding System. This system will replace the current Image Processing Subsystem, which is the central component of the Remote Bar Coding System within mail processing operations.

E. SUPPLIER DIVERSITY

DiversityBusiness.com named the Postal Service as the “Top Organization for Multicultural Business Opportunities,” based on the volume, consistency, and quality of business opportunities granted to minority- and women-owned companies. This year Postal Service contract commitments with small businesses exceeded \$3.3 billion; contracts with minority-owned businesses exceeded \$347 million; and contracts with women-owned businesses exceeded \$494 million.

The Postal Service’s Supplier Diversity function continues to strengthen strategic partnerships with suppliers through ongoing supplier councils that focus on new purchasing trends and supply management strategies. In 2006 Supplier Diversity participated in more than 50 community and organizational events including events organized by the National Minority Supplier Development Council, the U. S. Pan Asian American Chamber of Commerce, the National Congress of American Indians, and the Women’s Business Enterprise National Council.


4. Mail Security Equipment

A. VENTILATION AND FILTRATION EQUIPMENT

The Ventilation and Filtration System (VFS) program counters the threat of biohazardous material by reducing the risk of biohazards in the mailstream and by preventing cross contamination of mail. Two systems supplied by different manufacturers are essentially large vacuums that incorporate high efficiency particulate air (HEPA) filter technology to capture and contain aerosolized particles expelled from mail. Ventilation intakes pull airborne material into a filtering system that captures dust, potential contaminants, and particles of bacterial size and smaller. The VFS program fulfills the containment strategy of the Postal Service’s Emergency Preparedness Plan. Deployment of the VFS equipment was completed, except for three sites that require special site preparation. These three sites are expected to be completed in the first quarter of 2007.

B. BIOHAZARD DETECTION SYSTEM

The Biohazard Detection System (BDS) acts as an early warning system for the detection of biohazards within postal processing plants. It detects trace amounts of biological agents in mail and automatically notifies key individuals of an alert. BDS reduces risk to employees and the public from the threat of biohazardous materials sent through the mail. The BDS program fulfills the detection strategy of the Postal Service’s Emergency Preparedness Plan. Deployment was completed in December 2005.



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Chapter 2 **Postal Operations**

A. Public Perceptions, Customer Outreach, and Mailer Liaison

1. Customer Feedback Analysis

The Postal Service uses a variety of means to communicate with customers about products, services, and policies. Corporate Customer Contact handled more than 63 million customer inquiries via telephone, Internet, and mail. Of these, nearly 2.2 million were customer issues documented and electronically sent to the appropriate local Post Office or district Consumer Affairs unit for resolution. Reports containing customer feedback are available for postal managers to analyze trends for appropriate actions.

2. Privacy

The Privacy Office has led the Postal Service effort to protect the value of the brand that consumers have grown to trust. In 2005 the office and the mission expanded to include specialized support for policy and procedures. At that time, it was renamed the Privacy Office, Consumer Policy and Strategy. This year it accomplished four key goals in the areas of privacy and trust.

The office extended its responsibility to oversee consumer policy initiatives, while continuing to support all Postal Service Privacy and Records Office (Privacy Act and Freedom of Information Act) objectives. In February, for the second year in a row, American consumers ranked the Postal Service as the number one agency they trust to protect their privacy in the *2006 Privacy Trust Study of the United States Government* conducted by The Ponemon Institute LLC. The study measured the level of confidence Americans have in 57 different government agencies that routinely collect and use the public's personal information. Not only did the Postal Service retain the top spot, it also received higher customer satisfaction and trust scores. The Postal Service earned the top privacy trust score of 82%, an increase of 4% compared with the previous year. The overall average trust score was 47%.

The corporate and government IT environment was transformed as the impact of data breaches moved to the forefront in 2006. The Privacy Office worked closely with Information Technology and the Inspection Service to provide technical and policy guidance on privacy aspects of critical new data security initiatives. It also supported essential corporate communications efforts designed to increase employee awareness of Postal Service privacy policies and personal responsibility for compliance with information security requirements.

The Postal Service established its new support role for consumer policies and procedures by providing extensive operational and administrative support for the redesign of the International Inquiry and Claims function. The office developed streamlined procedures for processing inquiries and claims using reduced locations and complement. It assumed operational responsibility for processing all final Headquarters-level customer appeals and implemented new systems for processing inquiries, claims, and appeals at new locations. The new systems have substantially increased the speed, accuracy and efficiencies of insurance claims processing and appeal resolution. The redesign successfully reduced resource requirements while improving customer service in a function essential to continued consumer trust.

The Records Office responded effectively to the new, complex FOIA planning and reporting requirements established by White House Executive Order 13392, Improving Agency Disclosure of Information. A comprehensive review of Postal Service FOIA operations was conducted in compliance with the new policies. Results of the review became the foundation of the *Postal Service's Report and Improvement Plan*, which set forth specific milestones for improving program administration and operations. It includes objectives, timelines, and metrics for improvements. The FOIA Report and Improvement Plan is available at <http://www.usps.com/foia/welcome.htm>.

3. Customer Outreach and Mailer Liaison

A. NATIONAL POSTAL FORUM

The Postal Service directed and supported the National Postal Forum (NPF) in Orlando, Florida. Attendees included more than 6,000 business customers and exhibitors. The NPF theme was "Where Knowledge and Innovation Connect." The forum provided attendees with insight into the vision, plans, and priorities of postal and mailing industry leaders. Postal executives and industry leaders led discussion groups that addressed issues of interest to periodicals, package, and advertising mailers. Sessions covered topics such as address management, costs and rates, and prevention of fraud scams.

More than 2,900 participants attended more than 130 NPF training and education program workshops. Eleven certificate programs were offered as part of the Postal Service's commitment to continuing education. The event also featured four full- and half-day symposia on address quality, global packages, marketing to Hispanics, and periodicals. The NPF educational program was complemented by the exhibit floor, which featured hundreds of companies displaying the latest in mailing supplies, services, software, automation equipment, and systems.

B. EVENT MARKETING

Event marketing serves as a key strategy for achieving Postal Service sales and marketing objectives. Now in its eighth year, this program continues to evolve and grow, offering added value to the current customer base and creating significant new revenue contributions. Event marketing continues to be the best marketing and sales tool for face-to-face interaction with thousands of potential clients and customers. It has proven to be an effective avenue for the Postal Service to explore new markets and design new customer solutions.

C. SPONSORSHIPS

The Postal Service sponsors a NASCAR Busch Series team. The sponsorship helps build new business relationships and project a positive image. The display of Postal Service logos on cars racing in NASCAR events provides significant publicity and brand advertising value at less cost than traditional advertising.

D. POSTAL CUSTOMER COUNCILS

Postal Customer Councils (PCCs) enhance working relationships with local businesses, helping the Postal Service to better understand customer needs and create wider awareness of postal products and services. Current PCC membership exceeds 100,000 businesses. Support is offered through the PCC Web site at usps.com/pcc, the monthly

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publication *Memo to Mailers*, and a recently launched Web page for mail service providers usps.com/pcc/msp. The annual PCC Leadership Conference was held in April at the National Postal Forum. National PCC Day was held on September 20 via a live nationwide satellite broadcast from Arlington, Texas. The Postmaster General delivered the keynote address to more than 15,000 business mail customers. PCC “workshop-in-a-box” seminars help local businesses and nonprofit organizations get the most out of their mail. A *PCC Small Business Resource Guide* was also published during the year to promote PCC membership.

E. MAILERS' TECHNICAL ADVISORY COMMITTEE

The Mailers' Technical Advisory Committee (MTAC) provides a venue for the exchange of technical information and recommendations about mail-related issues and services. MTAC is composed of major mailing associations and organizations that work collaboratively with the Postal Service to enhance the value of mail for the benefit of the entire mailing industry. A development during 2006 was the addition of a Flats Sequencing System (FSS) workgroup to the already existing groups for Seamless Acceptance and Induction, Optimization of Preparation and Entry, Service Measurement and Improvement, and Address Accuracy. Workgroups related to Address Quality and Move Update were recently completed.

F. CORPORATE CUSTOMER CONTACT

The Postal Service's Corporate Customer Contact (CCC) function provides customers with convenient, toll-free access to a broad range of services through a comprehensive network of toll-free numbers. This network responds to queries ranging from general information, such as postage rates and the hours and locations of local postal facilities, to submitting change-of-address (COA) orders and tracking packages. CCC accepts customer orders for stamps through 800-STAMP-24 and also provides support for e-mail customer contacts submitted through the *Contact Us* page on usps.com. CCC also continues to add value to *My Post Office*, an Internet application that enables approximately 30,000 Post Offices to better manage end-to-end daily processes. *My Post Office* is used to communicate customer phone requests (e.g., pickups, holds, redeliveries, and COAs) and deliver corporate alerts to local Post Offices.

G. MAIL TECHNOLOGY STRATEGY COUNCIL

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

B. Mail Volume and Service Performance

1. Mail Volume

The Postal Service contracts with Global Insight, Inc., to provide ongoing economic analyses and projections and uses those forecasts to develop its Integrated Financial Plan. For the 2007 Integrated Financial Plan, the Postal Service relied on Global Insight's July 2006 projection. Based on that forecast, the Postal Service expects gross domestic product (GDP) to increase by 2.7% in 2007, down 0.4% from the July 2005 forecast.

Mail volume is positively affected by economic growth, which slowed by 0.3% in 2006 and is projected to slow a further 0.7% in 2007. Economy-wide retail sales, an economic indicator for Standard Mail and workshare First-Class Mail, grew 3.8%, but are expected to fall to 1.4% growth in 2007. Volatile energy prices, the cooling housing market, rising interest rates, and American auto manufacturers' elimination of price incentives are expected to reduce growth in spending on durable goods. A projected retail sales slowdown in 2007 leads the Postal Service to project a lower growth rate for Standard Mail volume and a small decline in workshare First-Class Mail volume.

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

The Postal Service projects a continuation of the downward trend in First-Class Mail volume. In the past, employment had been an indicator for single-piece First-Class Mail growth, but volume has declined for several years despite strong employment and economic growth. The decline is the result of the electronic diversion of bills and statements and the absence of new hardcopy applications. Future First-Class Mail volume growth is expected to be transitory as volume will continue to be impacted by long-term trends in communication and payment technologies. The moderate growth in employment projected by Global Insight will not drive volume increases sufficiently to overcome the negative impacts of diversion.

Priority Mail volume increased for the second consecutive year in 2006. This rebound is likely the result of several factors. Private sector competitors have increased their prices, while through the first quarter of 2006 the Postal Service has kept its prices stable. Moreover, private sector competitors have instituted and increased surcharges to cover higher costs in such areas as delivery to residential customers, delivery to rural customers, and fuel. Concurrently, the Postal Service has made Priority Mail service easier to use by introducing the flat-rate box and by bringing the Post Office to the customer with online postage and Carrier Pickup

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service. Priority Mail volume is expected to decrease over the next several years. Express Mail volume also experienced its second consecutive year of growth after 4 years of declining volume; yet, Express Mail volume is also expected to decline over the next several years. Technological and demographic changes continue to retard any growth in Periodicals volume. The growth in Package Services was driven by Bound Printed Matter and Media Mail volumes. The Postal Service expects Parcel Post volumes to decline in 2007.

Table 2-1 Mail Volume Forecasts

	2006 (Actual)	2007 (Estimated)
<i>(Pieces in millions)</i>		
First-Class Mail	97,617	94,775
Priority Mail	924	887
Express Mail	56	52
Periodicals	9,023	8,780
Standard Mail	102,460	104,721
Package Services	1,175	1,172
International	793	827
Other*	1,090	1,098
Total	213,138	212,312

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

Note: Numbers may not add due to rounding.

2. Service Performance

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

The EXFC system reported national overnight performance of 95% for all of 2006. National service performance for 2- and 3-day service was reported as 90% and 88%, respectively. See Chapter 4 for additional information.

3. Customer Satisfaction

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

- CSM-Residential (CSM-R) — measures household customer satisfaction.
- CSM-Business (CSM-B) — measures business customer satisfaction.
- CSM-Event-Based (CSM-EVB) — measures customer satisfaction with respect to specific events or activities, such as service provided by business mail entry units.

The customer satisfaction survey process is measured independently by The Gallup Organization.

CSM-B measures the satisfaction of business customers at three levels — from the largest-volume mailers to small business customers, who mail in smaller volumes. National Accounts are the largest revenue-generating customers and are managed by National Account managers. Premier Accounts are large revenue-generating customers managed by local account representatives. The third category, Preferred Accounts, includes all other business customers not identified as National or Premier Accounts. Preferred Accounts are typically small businesses served by a local Post Office.

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

2006	PQ I	PQ II	PQ III	PQ IV
National Accounts	92	92	91	92
Premier Accounts	90	90	89	91
Preferred Accounts	91	89	90	90
Residential	92	91	92	92

C. Products and Services

1. Correspondence and Transactions

The Postal Service renewed its focus on transaction mail (i.e., bills, statements, and payments) to strengthen the Postal Service position as the nation's primary channel for financial transactions. Ongoing refinements of the National Firm Holdout program and constant attention to 2-day and 3-day service performance have supported service improvements in this critical segment.

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A. REPLY MAIL

Reply Mail allows businesses to provide preaddressed letters and postcards, with or without postage, to encourage customer responses. The Reply Mail Web page on *usps.com* provides customers with information on how to use Courtesy Reply Mail (CRM) and Business Reply Mail (BRM) effectively and increases customer ease-of-use by reducing the time and effort required to apply for and obtain a BRM permit and ZIP+4 code. BRM and CRM customers can design letters and postcards, obtain a unique ZIP+4 code, and create camera-ready artwork that meets automation compatibility requirements.

B. REMITTANCE MAIL

Remittance Mail is the segment of First-Class Mail service comprised of payments typically enclosed in Courtesy Reply envelopes. When combined with outgoing bills and statements, bill and remittance mail accounts for an estimated 54 billion pieces or 55% of First-Class Mail. The Postal Service has developed a program to track remittance nationally using PLANET Codes. The program will seed mail pieces, evaluate performance, and identify areas of improvement. Testing is scheduled to begin in the spring 2007 and to continue through the calendar year. The Postal Service formed the Remittance Mail Advisory Committee (RMAC) with key industry leaders to recommend actions for improving performance and adding value to Remittance Mail.

C. ELECTION MAIL

Official Election Mail allows state and local jurisdictions to initiate “no excuse needed” absentee voting. Twenty-nine states currently allow such voting. Postal Service representatives collaborated this year with election officials nationwide to respond to the growing need for “Vote by Mail”. Based on the collaboration several key initiatives were completed. Training and the APO/FPO Express Program were added to the Election Officials’ Resource Center on *usps.com* Web site. A national training program for election officials was established and election mail related workshops were conducted at the National Postal Forum. Two publications were released (Publication 631, Official Election Mail — Graphic Guidelines and Logos, and Publication 632, State and Local Election Mail Users Guide) to assist election officials. In addition, a national taskforce comprised of election officials and postal service representatives was established in an effort to identify additional improvement opportunities.

2. Direct Mail

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

Direct mail revenue grew almost 5% and volume almost 2%. This growth was based on factors such as the targetability and measurability of direct mail, response rates, and return on investment which is among the highest of all advertising media. Some growth can also be credited to a continuing trend to block spam e-mails and telemarketing calls, and the availability of innovative products such as Customized MarketMail, Repositionable Notes, and Ride-Along for Periodicals.

A. PROMOTION

The Postal Service is raising awareness about direct mail with advertising agencies and large and small advertisers through customized publications such as *Deliver*, a bi-monthly magazine designed in case-study format to profile Fortune 500 organizations and leading minds in the industry. Research shows the magazine has influenced almost half of the respondents to increase their use of direct mail. Meetings with senior advertising agency executives were held to discuss the advantages of direct mail and explore opportunities for greater and more effective use of the mail. A customer feedback mechanism was also added to the Postal Service’s Direct Mail Web site at *usps.com/directmail*.

For small businesses *Grow Your Business Days* promoted the ease and speed of Web-to-mail products using NetPost Services to design and implement direct mail campaigns from the convenience of the customers’ computer. An educational program called the Direct Mail Institute used industry experts to train representatives to help medium- to large-size customers understand the value and power of the mail.

B. RESEARCH

The Multi-Channel Catalog Study highlighted and quantified the increased traffic and sales generated on Web sites when hardcopy catalogs are used in a marketing campaign. Other information provided to the mailing industry concerned the impact of direct mail on online credit card applications. The study demonstrated that mail is the overwhelming source for consumers going online to apply for a credit card because it provides the information needed to decide if an offer is useful and relevant.

The Postal Service’s Mail Moment research shows that Americans value and look forward to receiving mail. The Mail Moment lasts 30 minutes on the average and involves consumers bringing their mail into the home and sorting, reviewing, and acting upon it. An amazing 98% of Americans bring in their mail from their mailbox every day. Mail provides information that supports the household CEO to do things needed to keep their household running — shopping, maintaining relationships, and managing bills and payments. Businesses use mail to do the same jobs. Follow-up research, the Business-to-Business Mail Moment study, indicated hardcopy mail gives almost universal access to the individual that senders are trying to reach. The research shows that mail plays a fundamental role in supporting decision-making, and is easy and safe for receivers to use.

3. Value-Added and Special Services

Value-added and Special Services are a unique set of products that can be purchased for a fee, either separately or as a feature added to services such as First-Class Mail, Express Mail, and Priority Mail. Special Services are an essential cornerstone of the strategy to increase usage of other core mail products. They add value primarily by providing security with benefits that permit customers to verify mail receipt and delivery, obtain signatures, insure mail contents, and register mail for additional protection. Customers can also track letters and flats through CONFIRM service and receive delivery information for flats and packages using Delivery Confirmation and Signature Confirmation Services. Post Office boxes and Caller Service offer alternatives for receiving mail.

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A. PREMIUM FORWARDING SERVICE

Premium Forwarding Service (PFS) forwards all First-Class Mail, Standard Mail, and Periodicals from a household customer's primary address to a temporary address. Mail is forwarded using Priority Mail once a week for a minimum of 2 weeks and up to 1 year. PFS is especially beneficial for Standard Mail advertisers because their mail will now be forwarded at no additional cost to them. All Express Mail, Priority Mail, Package Services mail, and accountable mail items that require a scan or signature are forwarded immediately upon arrival at the home Post Office. Customers pay a \$10 enrollment fee and \$10.40 for each weekly Priority Mail shipment. More than 90,000 customers have enrolled in PFS to date.

B. INSURANCE

Customers may purchase up to \$5,000 of domestic insurance for packages at all Post Offices and up to \$500 at Automated Postal Centers. Customers can purchase shipping labels on *usps.com* with the option to add domestic insurance to Click-N-Ship purchases. Click-N-Ship customers can add insurance to Priority Mail and Express Mail; eBay customers can add insurance to Priority Mail, Express Mail, First-Class Mail, Media Mail, and Parcel Post. Fees are the same as those at the retail counter. Online insurance coverage increased from \$200 to \$500.

C. REGISTERED MAIL

Registered Mail is the most secure method for shipping valuable items. The sender is provided with a mailing receipt and upon request, electronic verification that an article was delivered. Registered Mail is handled separately from other mail in specially locked pouches or containers and requires signature accountability at all transfer points in transit. A study conducted to determine the cause of declining Registered Mail volume recommended using technology to improve performance and decrease errors. The intelligent mail device, a new scanner being deployed to all Post Offices in 2007, will simplify signature accountability of hand-to-hand transfers.

D. CONFIRM

CONFIRM service uses barcode technology to provide First-Class Mail, Standard Mail, and Periodicals mailers with visibility for outgoing mail and incoming reply letters and flats with near real-time information. The barcodes uniquely identify each mailpiece so equipment can report the location of a particular piece as it is processed. A new barcode technology enhances the mailing industry's ability to identify mailpieces and utilize CONFIRM data. This new service option with CONFIRM — called OneCode CONFIRM — allows use of the Intelligent Mail barcode and was implemented in September 2006 for letter mail.

E. DELIVERY/SIGNATURE CONFIRMATION SERVICES

Delivery Confirmation uses barcode technology to provide shipment information such as date, time, and ZIP Code of the delivery status, including whether delivery was attempted or completed, or if it was forwarded or returned. Signature Confirmation adds information on exactly who accepted and signed for the shipment at delivery. Confirmation services can be added to Priority Mail, First-Class Mail parcels, Standard Mail parcels, Parcel Select, Parcel Post, Bound Printed Matter, Library and Media Mail.

F. POSTAL MONEY ORDERS

Postal money orders are a safe, convenient economical alternative to sending money through the mail. They can be purchased from any Post Office or rural carrier. Specimen postal money orders were distributed to help financial institutions and law enforcement communities prevent negotiation of fraudulent postal money orders. These specimens highlight the embedded security features of the existing postal money order document and assist financial institutions in determining whether money orders presented for cashing are authentic.

G. POST OFFICE BOXES

Post Office box service is offered for a fee to any customer requiring an alternative to free carrier delivery or general delivery. The fee varies depending on the location and the size of a box. Customers can obtain their mail during the hours the box lobby is open. New promotional signs for retail lobbies and an improved Web page were designed to increase box use and revenue. Publication 431, *Post Office Box Fee Groups*, was updated and published online for postal employees to assist customers with this service. Caller Service is available for a fee when the largest box does not accommodate customer needs.

H. MAIL RECOVERY CENTERS

The Postal Service operates two mail recovery centers (MRCs), which are located in St. Paul, Minnesota, and Atlanta, Georgia. These facilities are responsible for the final disposition of undeliverable-as-addressed (UAA) and nonreturnable First-Class Mail letters and Package Services mail. The MRCs processed approximately 4.7 million parcels and 93.1 million letters. The Postal Service works closely with mailer organizations to identify ways to provide better service and reduce operating costs. A direct result of this process is the Expanded Return Program, in which undeliverable items found in company-identifiable packaging are returned in bulk, as postage due, to 37 participating companies. Mail received at the MRCs that is determined to be of no obvious value is destroyed to protect customer privacy. The Postal Service continues to improve processes to identify rightful owners of UAA. Almost 7.6 million pieces were returned to owners.

4. Alternative Mail Solutions

NetPost Services offers a suite of Web based print-and-mail services available at *usps.com/netpost*. These services leverage the Internet to provide consumers and small businesses with access to alternative mail solutions. In 2006 the following were made available: 1) *NetPost Mailing Online* was expanded by providing the option to mail internationally from home and office desk computers; 2) customers now access Internet change-of-address request to notify their chosen business or personal recipients of their new address by using NetPost Movers Postcards; 3) the NetPost Premium Postcards Web site was improved to allow greater capacity to personalize and customize postcards; and 4) the ability for NetPost CardStore customers to choose and enclose a gift card from nationally known and respected retailers inside personalized greeting cards was added. Premium Postcards is a template-driven service that gives consumers and small businesses access to a simple and straightforward interface for sending high-quality glossy postcards. Premium Postcards were the featured product of the *Grow Your Business Days* events.

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5. Package Services

A. EXPEDITED SERVICES

Priority Mail and Express Mail volume and revenue grew as customers responded to initiatives that make it quick, easy, and convenient to use these products. PC Postage and Click-N-Ship contributed to growth as did an expanded partnership with eBay. Requests for Carrier Pickup, which allow customers to have prepaid packages collected for free the next delivery day, increased significantly, with more than 25 million packages picked up. The Priority Mail flat-rate envelope and box remained very popular, and the Postal Service requested that the flat-rate box be made a permanent classification in the R2006-1 rate case.

B. CLICK-N-SHIP

Since the Postal Service first introduced Click-N-Ship online shipping on *usps.com*, growth has been continuous. Revenue grew by more than 55%, generating more than \$168 million. From the convenience of their homes or offices customers can use stored addresses to create labels with and without postage, and then click on a link to schedule a Carrier Pickup, saving time and a trip to the Post Office. Several new features were added to increase the value of the online shipping application. Global Priority Mail and Global Airmail Parcel Post were added to the services that Click-N-Ship can be used with, and in August, the Postal Service rolled out Click-N-Ship service for packages destined to Army Post Office and Fleet Post Office addresses.

C. PARCEL SELECT

Parcel Select is the Postal Service's ground package-delivery product designed for medium-to-large shippers who enter packages at destination facilities. After the bankruptcy filing of the largest package consolidator, alternative solutions were found to maintain a majority of this business. The Postal Service holds quarterly meetings with the national consolidators' senior management to discuss issues such as scanning, service, and manifest accuracy. Parcel Select service performance was again at an all time high, as is the percent of packages entered at the destination delivery unit.

D. PARCEL RETURN SERVICE

Direct-to-consumer online and catalog sales continued to rise and with it, so has the number of returned parcels. The Postal Service has been able to capitalize on this growth with convenient return solutions such as Parcel Return Service (PRS) and Merchandise Return Service. PRS, a worksharing returns program, has been eagerly adopted as merchants appreciate the value of offering a quick, easy, and convenient return service. In 2006 PRS expanded into the return delivery units (RDU), resulting in more efficient operations for shippers by allowing them to pick up returned packages at the same delivery unit where their packages were first entered for delivery. PRS is now available through more than 1,800 RDUs.

E. COST REDUCTION INITIATIVES

The Postal Service continued to focus on reducing costs that support package service products. Efforts include managing the expense of packaging supplies and coordinating actions to improve mailer parcel barcode quality. Another program, through which Express Mail Corporate Account (EMCA) customers pay for their postage by credit

card, was created to enhance service and increase financial controls. Customers are opening new accounts and many trust accounts are converting to the EMCA.

D. International Mail

1. Volume and Revenue

Due to weight per piece growth and a rate increase in January 2006, international mail revenue increased 1.6%. International services that saw revenue growth included Global Express Mail, Global Priority Mail, Global Air Parcel Post, International Surface Airlift, and International Priority Airmail. International mail volume decreased 6.9% overall, primarily in Economy Mail and Airmail.

2. Improving International Services

A new Global Business organization was created in July 2006 to manage Postal Service worldwide business. It focuses on international business management, international financial and business analysis, global network strategy and technology, and international relations. It is also responsible for international operations, including operation of the five international service centers.

The Postal Service continued a high level of service performance to Europe for Express Mail and parcels while reducing costs for delivery by more than \$10 million to preserve low rates for U.S. customers. Work continued with the chief executive officers of the postal administrations of China, Hong Kong, Korea, Japan, and Australia to maintain excellent service quality for express and parcel services between these regions.

The Postal Service continued a multi-year process of providing online shipping tools for international business customers. Effective September 2006, the Postal Service launched application program interfaces (APIs) for Global Priority Mail and Global Airmail Parcel Post shipping labels through Postal Service Web Tools. These new APIs allow customers to print shipping labels that combine mailing information with *Customs Declaration CN 22 — Sender's Declaration* (green label), and *Customs Declaration and Dispatch Note — CP 72*, thereby eliminating the need for a separate customs form. Business customers can install the APIs into their eCommerce Web sites or their own shipping operations allowing users to print shipping labels without leaving their Web site or workstation.

3. State Department Coordination and Universal Postal Union Congress

The Postal Service worked with the U.S. Department of State to represent the United States in the Postal Operations Council (POC) of the Universal Postal Union (UPU) held in the spring of 2006. A total of 104 countries attended the session, participating in more than 80 meetings of POC committees, boards, project teams, and subgroups. The POC considered some 80 proposals on issues ranging from terminal dues to the barcoding of registered items to the setting of inward land rates for parcels. The POC approved 44 proposals, including two U.S. reservations insuring that the domestic law concerning a ban on the importation of anabolic steroids would be respected, rejected 15 proposals, and referred 21 proposals for further study.

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The Postal Service continues to play an influential role in the development and design of the new terminal dues system set for implementation in 2014 as well as the related development of a pay-for-performance system for all 191 UPU members. The Strategic Planning Group's Scenarios Subgroup, chaired by the U.S., released a detailed study on the future of the postal sector through 2012, while the Postal Security Action Group focused efforts on combating terrorism and money laundering, increasing the use of the eMARI (electronic Mathematical Analysis of Route Irregularities in the Air Transport of Mail) computer application and strengthening cooperation with air carriers. Under the leadership of the Postal Service, the Standards Board advanced an ambitious agenda, advocating the use of electronic data interchange systems, electronic postmarks, Intelligent Mail barcodes, and greater protection of intellectual property rights.

The UPU's Council of Administration (CA) held its regular session and several of its groups met again during the spring POC session. Though the U.S. is not currently a member, the State Department and the Postal Service remain active in a number of CA Groups. This includes chairing the Acts of the Union Project Group, which is replacing the term "postal administration" with "member country" and "designated operator" in the UPU acts. This is essential for establishing responsibilities and financial liability among governments and postal operators. Other work included revising eligibility criteria for the Quality of Service Fund and approving plans for the November 2006 UPU Dubai Strategy Conference and the 2008 Nairobi Congress.

E. Mail Distribution

1. Automation Activities

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

A. LETTER MAIL AUTOMATION EQUIPMENT AND SOFTWARE

Letter mail address recognition rates continued to rise as additional hardware and software upgrades were deployed for existing multi-line optical character readers (MLOCR), delivery barcode sorter input/output sub-systems (DIOSS), and remote computer reader (RCR) equipment. Recognition improvements deployed to 342 mail processing centers under the Letter Recognition Enhancement Program (LREP) this year raised the letter mail encode rate to more than 92% while slightly reducing the error rate. LREP is an incentive-based program where the supplier is paid based on the incremental performance improvements achieved. Another enhancement uses an additional database that is expected to improve address coding to high rise buildings and firms. These improvements are projected to yield with an additional 2–3 percentage point increase in the overall system encode rate by late 2007. Recognition improvements are also planned for wide field of view cameras previously installed on all barcode sorters.

The DIOSS machine is a further advancement of delivery barcode sorter (DBCS) technology that includes optical character reader (OCR) and

input/output subsystem capability. It allows automated processing of mail that currently requires manual distribution. The Postal Service began deployment of 395 new machines and 222 kits to upgrade existing DBCS to DIOSS machines in 2006 and expects to complete deployment in June 2007. As a result, 646 MLOCRs that have reached end-of-life will be removed from service. The MLOCR components that are reusable as spare parts will be salvaged and sent to the Postal Service's parts depot in Topeka, Kansas.

Letter mail automation capabilities were expanded significantly in 2006 with the addition of new barcode recognition and data collection functions to support marketing and Intelligent Mail efforts. Most of the letter mail processing equipment has been upgraded to provide Intelligent Mail barcode capability, as well as new functionality to support the tracking of inter-facility mail. The new data-rich environment created by these efforts is a significant step forward in the tracking of letter mail, both by single piece and by tray.

B. FLAT MAIL AUTOMATION EQUIPMENT AND SOFTWARE

The Flat Recognition Improvement Program is increasing recognition rates and lowering error rates on flat sorting machines. The result is fewer misdirected flats and better customer service. Recognition rates improved by more than 2% while error rates were reduced by 0.4%. Incremental improvements to further enhance flat recognition rates are planned for 2007.

The Automatic Tray Handling System (ATHS) is increasing capabilities and reducing the labor required for the Automated Flats Sorting Machine (AFSM) 100. It replaces the tray take-away conveyors on the original AFSM 100 with a more functional fixed mechanization system. Each ATHS automatically ejects full trays onto the transport conveyor and produces a properly labeled empty tray to replace the one just dispatched. When a run is completed, the ATHS systematically dispatches all trays, then labels and inserts a new set of trays for the next sort plan. Deployment of 354 ATHS began in June 2005 and was completed in September 2006.

Deployment of an automated feeding system for the AFSM 100, the Automatic Induction (AI) system, is underway. The AI system uses ergonomic workstations to prepare flats in automation-compatible trays. A mechanical tray handling system transports trays to the feed stations where mail is automatically inducted without operator intervention. Deployment of 210 AI systems began in late October 2005 and was completed in September 2006. A Phase 2 contract was awarded in 2006 for 148 additional units, with deployment planned through May 2007.

C. PARCEL AND BUNDLE AUTOMATION

The Automated Package Processing System (APPS) is the Postal Service's next-generation machine for sorting parcels and bundles of mail. It is replacing the older, more labor-intensive Small Parcel and Bundle Sorter (SPBS). APPS automates package distribution and provides greater processing capacity through automatic package induction, singulation, and address recognition using an OCR, barcode reader, and video coding system. The high throughput capability (up to 9,500 pieces per hour) is supported by automated container unloading. The system also collects detailed information about each package, such as type, size, and weight and supports in-route tracking of Delivery Confirmation codes.

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Deployment of 74 APPS machines began in 2004 and was completed in October 2006.

2. Remote Encoding

The automated distribution of mail relies on barcodes that represent the delivery address. Processing equipment translates the address and applies the barcode to pieces that are not pre-barcoded by a mailer. Letter and flat mail image volumes continue to decrease as improvements are deployed, while ongoing deployments of APPS machines and the Postal Automated Redirection System (PARS) are providing additional sources for images sent to the RECs. The keying requirements for each are different and the REC handles them as separate operations. The results are transmitted to the facility that has the mailpiece, thereby keeping it in the automated mailstream.

During the past several years, a series of computer-based image recognition improvements have significantly reduced the number of images that require manual keying at the RECs. As a result, the Postal Service has been able to reduce the number of RECs in the national network from a high of 55 in 1998 to only 12 today. Additional image recognition improvements are expected during the next few years, which will allow the continuation of the REC consolidation effort. Two additional REC closings were announced for 2007.

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

3. Process Improvements

A. 24-HOUR CLOCK

This year the Postal Service expanded process control and lean management efforts with considerable success. A key initiative was the system-wide introduction of the 24-Hour Clock, a highly-structured means for managing mail flows to achieve optimum service and efficiency. It features eight standard indicators and targets, each a key step in the daily flow of mail. Managers are responsible for meeting these targets at all postal facilities nationwide.

Adherence to these standard “handoffs” provides strict operating discipline throughout the system, reducing variability regardless of location or facility type. Missed dispatches, redundant transportation, and sub-optimal processing are all reduced. Complementing the 24-Hour Clock was implementation of IOP-Tour, a process for integrating operating plans (IOP) and managing handoffs among tours within a plant.

B. INTEGRATED DATA SYSTEM

The Integrated Data System (IDS) continuously collects data from all processing equipment within a facility. It allows applications to leverage this data to better manage equipment performance, and thus improve productivity and reduce operating costs. IDS also provides more accurate data on mail volumes and equipment utilization. More precise information by destination and availability for dispatch make it possible to reduce transportation costs. Equipment data are the basis for activity-based costing models which can be used to better control operating costs. The IDS functionality extended to associate Post Offices, linking processing data from remote sites to the host IDS at processing plants. The MPEwatch software application, which monitors processing equipment performance in near real-time, was implemented on IDS to increase application efficiency and response time. IDS also included a security patch management application and an anti-virus solution that will protect the mail processing equipment computing environment against potential security violations and threats.

C. POSTAL AUTOMATED REDIRECTION SYSTEM

Deployment of the Postal Automated Redirection System (PARS) for letters continued on schedule with completion expected in 2007. So far, 161 plants have converted to PARS. This system identifies and redirects forwardable mail during processing, which reduces the time required for mail to be delivered to the new address. It eliminates steps associated with forwarding and address correction services (ACS). With implementation of the Intelligent Mail barcode/ACS program this year, it will no longer be necessary for RECs to key ACS data.

PARS-forwarded volume is growing significantly as both the number of systems and areas of coverage increase. PARS handled more than 2 billion pieces in 2006, more than twice as much as last year. It reduced workhours in forwarding operations and resulted in the consolidation of 72 computerized forwarding system sites. More consolidations are expected in 2007.

PARS also has been shown to reduce forwarding time and improve customer satisfaction. As more customers realized PARS benefits, customer satisfaction survey ratings on questions regarding forwardable mail have increased significantly. Tracking data shows more than a 50% decline in complaints related to changes of address from 2004 to 2006.

The potential of PARS was clearly demonstrated in the aftermath of Hurricanes Katrina and Rita. The PARS system enabled the Postal Service to more efficiently reconnect customers with their mail following the hurricanes. With the National Change of Address (NCOA) database accessible to mail processing plants nationwide, the plants intercepted and forwarded mailpieces at their very first machine handling, which diverted enormous volumes of mail away from hurricane affected areas and on to their new destinations. Future plans include the extension of PARS to forward flat-shaped mail.

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D. ADVANCED FACER CANCELLER SYSTEM

Letter mail can double-feed on automated processing equipment when envelope glue is misapplied or the feed mechanism is misaligned. When this occurs, the mailpiece identification code on the back of the pair of letters does not match the address on the front letter. Costly manual handling is then required to correct the error. The doubles detector for the Advanced Facer Cancellor System (AFCS) reduces the associated re-handling and improves delivery performance. Deployment of doubles detectors on all 1,083 AFCS machines began in 2005 and was completed in 2006.

The AFCS Ink Jet Cancellor (IJC) system replaced the current hub and die cancelling mechanism with an ink jet printer. This upgrade is more reliable and requires less maintenance. It automates date setting and introduces a time stamp to enhance mailpiece tracking, tracing, and security. It provides flexibility in cancellation appearance and content without the need to manufacture, deploy, and inventory new dies for each cancellation mark. Deployment on all 1,083 AFCS machines began in 2005 and was completed in 2006.

E. BUSINESS MAIL ACCEPTANCE

Upgrades continued for the *PostalOne!* system for transactions processed in the business mail channel. Electronic capabilities for large volume Periodicals mailers were enabled and the Postage Statement Wizard option was deployed for small volume mailers. *PostalOne!* electronic data exchange capabilities were deployed to additional customer sites to support Standard Mail service.

Other *PostalOne!* innovations included elimination of dual entry for Business Reply Mail transactions, pilot testing of eDropship, and a performance-based verification model. Increased use of Electronic Mail Improvement Reporting drove improvement of customer bundle preparation. Expansion of the *PostalOne!* transportation management system continued, allowing large First-Class Mail mailers to directly assign transportation for their mail.

The Electronic Verification System (eVS) continued to attract national parcel shippers as a paperless alternative to traditional manifesting with more product offerings and improved ease of use. Improvements included reports to facilitate online monitoring and postage payment. Regulations governing eVS were published in the July 10 *Federal Register*, mandating participation by August 2007 for all Parcel Select mailings. The Postal Service also developed a new customer outreach program and a comprehensive curriculum for Business Mail Entry analysts and Mailing Standards specialists to promote participation.

4. Material Handling

Deployment of new material handling technology continues to increase efficiency and reduce costs. Development and production activities included equipment for receipt, dispatch, and material transport operations within processing plants. Integrated Dispatch and Receipt (IDR) program expanded deployment to more than 200 mail processing facilities. The IDR program provides up to ten different types of machines and automates the functions associated with letter tray and flat tub preparation. It also provides tray transport equipment to integrate both new and existing systems in order to streamline the flow of materials. The IDR program reduces cost in incoming and outgoing dock operations and in receipt and dispatch operations. Deployment is on schedule for completion in 2007.

To support the planned network changes, deployment continued for a new generation of high-speed tray sorters that automates letter tray sortation at large plants and transportation hubs. The Postal Service has also developed specialized de-palletizing equipment for mail trays to be deployed in conjunction with high-speed tray sorters. New equipment has been developed to automate the sortation of sacks, large parcels, and other bulky items, which is critical as obsolete sack sorters are removed from service.

Deployment continued on the Powered Industrial Vehicle Management System (PIVMS), which is designed to facilitate the safe and efficient management of powered industrial vehicles, such as forklifts and tuggers. Capital funding has been approved for nearly 60 sites to date. The Postal Service expects the number of participating sites to exceed 100 by the end of 2007.

5. Support Systems

The Transportation Optimization Planning and Scheduling (TOPS) system began providing output to reduce transportation costs in 2006. TOPS enables managers to perform both long-range and week-to-week transportation optimization planning and analysis of the movement of all mail traveling on all modes, contracted or postal.

The Surface Air Support System (SASS) integrates scan data received from air transportation suppliers with existing transportation systems to support service performance accountability and accurate payment verification. The central visibility database receives assignment data from the Surface Air Management System and scan data from Postal Service facilities and transportation suppliers. This data is used for reconciling payment for air carriers and measuring supplier performance. The SASS database will be updated to accommodate the terms of the new UPS, FedEx, and CAIR contracts.

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F. Delivery Unit Operations

Delivery operations is the Postal Service's single largest cost center, accounting for 43% of all expenses. Approximately 1.8 million new delivery points are added to the network each year. Table 2-3 shows the number of delivery points at the close of 2006. A number of strategies and programs to control growth in delivery costs are described in the following sections.

Table 2-3

Total Number of Delivery Points — 2006	
City	86,292,173
Rural	37,365,860
Post Office Box Service	20,105,846
Highway Contract Route	2,410,317
Total	146,174,196

1. Delivery Point Sequencing

A. LETTER MAIL

Delivery point sequencing is the automated arrangement of mail in the order that deliveries are made by the carrier. Today, 80% of letters are distributed to delivery routes in delivery point sequence. The objective is to increase this amount to 95% by 2010 and also to aggressively pursue the sequencing of flat mail. More than 13,000 delivery units receive letter mail in delivery point sequence. These units account for more than 86.3% of all city routes and 82.2% of all rural routes.

B. FLAT MAIL

Flat mail is currently sorted on automation only to the ZIP Code and carrier route levels. This mail must then be sorted manually into delivery order by the carrier prior to beginning deliveries. Development of a Flats Sequencing System (FSS) to automate sequencing of flat mail is underway. FSS deployment will significantly reduce the labor intensive manual sequencing process for high volume, flat mail zones and routes. Unlike letter mail, which is fairly uniform in size and address location, today's flat mail has a highly variable address placement. A more standardized address placement is necessary to support the technology for sorting and for optimal carrier work practices.

During 2006 a prototype FSS was tested at the Indianapolis Mail Processing Annex and demonstrated a 98.7% average accuracy rate. The prototype system included such advanced mail handling technologies as automatic feeding, sweeping, and container loading. Based upon the anticipated savings potential for this technology, the Postal Service also began a pre-production acquisition program. The pre-production FSS will be deployed about 1 year before production machines and will be used to design detailed operational methods and determine logistics support requirements. An in-plant test of the pre-production system is expected in April 2007, with deployment to the mail processing facility in Dulles, Virginia, by the fall of that year. Production equipment deployment is anticipated to begin late in calendar year 2008.

2. Carrier Pickup

Traditionally, carriers have always accepted prepaid outgoing mail customers give to them or leave for them. Customers would often leave notes on or near the mailbox or would raise the signal flag on their mailbox to alert the carriers of outgoing mail. Even without notice, carriers collect mail that customers place adjacent to, in, or on private mail receptacles while making delivery. Today, through the Customer Pickup program, customers can also use the telephone or a computer to leave an advance notice for when mail is available for the carrier to pickup. The volume of Carrier Pickup mail grew more than 89% as more customers have become aware of the convenience of using Click-N-Ship and online postage.

3. Carrier Optimal Routing

Carrier Optimal Routing (COR) is a carrier routing and travel optimization program used to configure compact, contiguous, and safe city carrier routes. It also uses actual mail volume data to create efficient travel paths while reducing park points and relays. COR was successfully utilized in over 100 city carrier zones during the 2006 route adjustments. COR is compatible with the Delivery Operations Information System (DOIS) and receives delivery and route adjustment files directly from DOIS. Numerous performance clusters across the country currently use COR. The Postal Service plans to expand the use of COR to include a module for Rural and Contract Delivery Service routes in 2007. COR Version 1.5, which includes COR for minor route adjustments and other important enhancements, was released in November 2006.

4. Electronic Publication Watch System

The electronic Publication Watch (ePUBWATCH) application is a Web-based tracking tool and resolution system for Periodicals. This tool continues to be a vital communication platform for publishers and subscribers. Registered publishers can enter a subscriber's delivery-related complaint and request an electronic publication watch. Publishers also receive assistance from one of the area or district periodicals service improvement coordinators. In the fifth year of operation, the number of registered publishers has continued to increase.

5. ADVANCE Notification and Tracking System

The ADVANCE Notification and Tracking System (ADVANCE) is a Web-based application that supports the delivery and tracking of qualified Periodicals and Standard Mail with specific in-home delivery dates. Delivery units receive advance notification of a mailing and must report when the mail arrives, when delivery begins, and when delivery is completed. ADVANCE notification of time-sensitive mailings gives delivery units the opportunity to make any adjustments necessary to meet customer needs. ADVANCE provides delivery performance reports to postal management and mailers to ensure mailing requirements are met. Customers tracked approximately seven million mailpieces using ADVANCE, which represents more than a 6% increase compared to 2005.

6. Mail Security

In 2006 President Bush signed an executive order creating the nation's first ever Identity Theft Task Force. The Postal Service is a major participant in this forum, which strengthens efforts to protect the financial information of American citizens. This Task Force oversees the imple-

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mentation of solutions at the federal level to defeat the growing threat of identity theft.

The Postal Service worked with Louisiana state election officials to validate the security of ballot mailings. Reviews were conducted to ensure integrity of the mailings through volume data provided by the CONFIRM service. Inspectors picked up ballots from the state and verified that the mailings were logged in at the processing plant.

Additional work was performed with other stakeholders to evaluate security risks associated with Post Office box locks. The Inspection Service conducted facility reviews at 907 facilities and made recommendations for noted security deficiencies. The Inspection Service continues to work with major mailers to ensure mail security concerns are addressed and to coordinate collection and sharing of intelligence data.

G. Stamp Services

1. Stamp Program

The Postal Service issued 21 new commemorative stamps. Subjects included a tribute to the amazing Wonders of America; a salute to classic motorcycles; big league baseball sluggers; the artistic beauty of handmade quilts from Gee's Bend, Alabama; distinguished American diplomats; and a collection of DC Comic Super Heroes. A number of prominent individuals were also featured in the commemorative program. They included boxer Sugar Ray Robinson, Hollywood legend Judy Garland, American icon Benjamin Franklin, author Katherine Ann Porter and actress Hattie McDaniel. The Postal Service's Amber Alert stamp was issued throughout the country to raise awareness about missing and exploited children.

2. Production Activities

Production costs for all stamps, including those needed for the January 2006 rate increase, were \$75.6 million. Of the 35 billion stamps produced in 2006, approximately 1.6 billion, or 4.6%, were for the commemorative stamp program.

3. Stamp Fulfillment Services Activities

Stamp Fulfillment Services processes stamp and philatelic orders received primarily by telephone and through the Internet. Orders grew by 74%. Since 2002 orders have grown from 1.2 million to 4.4 million per year with annual sales surpassing \$311 million in 2006.

H. Licensing

Officially-licensed merchandise is merchandise that displays Postal Service trademarks, stamps, and images that were granted permission for reproduction. Through licensing, the Postal Service protects, manages, and develops the intellectual properties and opportunities that best represent the Postal Service brand. The program experienced a growth of 90% in 2006, \$1.7 million in net income. This increase can be attributed to the streamlining of workflow and the reduction of costs.

I. Commercial Customer Service

1. Commercial Sales

The Postal Service continued to manage one-to-one relationships with more than 35,000 large customers in 2006. The organization refined its standardized sales management process, realigned sales management, expanded skills training, and increased effective sales support tools.

Field sales teams are better equipped than ever before to target opportunities, have effective engagements, and close sales. Commercial revenue performance, customer satisfaction, and field sales readiness assessment performance have continued to improve. More and more businesses choose the Postal Service as part of their integrated business strategy to attract new and repeat customers, build their brand in the mailbox, communicate with key customer segments, and ship their merchandise and important business documents.

2. Business Service Network

The Business Service Network (BSN) provides customer service to the Postal Service's largest business customers, which represent more than \$41.7 billion in total revenue for National and Premier Accounts, or 57.7% of total revenue. The BSN redesigned its Headquarters and field structure. The new model provides BSN service from the area office to those accounts with multiple sites and highly complex issues. District BSN resources will continue to handle accounts with less complex issues. A Service Improvement Team was added at Headquarters to identify and resolve systemic issues. The BSN encouraged user adoption of the customer relationship management (CRM) application, improved data quality, and increased customer satisfaction. The number of customers registered to use the online service increased to 26.1%. BSN results exceeded the prior year's Customer Satisfaction Index for National and Premier Account customers.

3. Customer Relationship Management

Three additional customer information systems were integrated within a common postal customer identification system, enhancing the completeness and accuracy of customer information. Through the use of technology and the application of standards, the Postal Service continued to improve the overall quality of data leading to better customer service and cost savings opportunities. Customer Registration, which gives large mail volume customers access to online postal services with a single logon ID, was expanded to include additional online services. This expansion makes it easier and more convenient for the largest customers to do business with the Postal Service.

4. Engaging Employees to Grow Revenue

The Customer Connect and Business Connect programs have successfully encouraged employees to identify and develop new business opportunities. Promotion of these programs enhancing employee participation remains the focus.

Customer Connect asks carriers to help identify small businesses that could benefit by increasing their use of postal services. Carrier referrals are provided to sales employees who then meet face to face with customers to better understand their needs and recommend the right mix

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of products and services. Customer Connect has exceeded expectations for both participation and revenue.

The Business Connect program provides postmasters, station managers, and branch managers with the tools to help small and medium-sized businesses generate revenue with postal products and services. Postmasters have always been a part of the communities they serve, and Business Connect provides tools and training to identify new customers and revenue prospects, creates professional presentations about products and services, and establishes them as the primary local resource for business growth and success.

To provide additional support to field personnel implementing Customer and Business Connect programs, the Postal Service piloted seven business development teams. These teams played a key role in the identification of ways to increase program revenue and participation.

J. Retail Programs

Each day millions of customers visit Post Offices to buy stamps, mail packages, or collect mail from a Post Office box. More Americans, however, are now obtaining stamps or other services through alternate channels — by mail, online, from an Automated Postal Center, and through more than 49,000 commercial outlets that make stamps available, including supermarkets, convenience stores, and ATMs.

1. Retail Sales

The retail channel provides local access for correspondence and business mailing, domestic and international package shipping, and delivery through more than 20 million Post Office boxes. The principal users of retail are small businesses and individual customers. Total retail revenue for 2006 was \$17.3 billion. Post Offices and contract postal units (CPU) account for approximately 80% of all retail revenue and 96% of all retail operating expenses. Alternate access channels, such as stamp consignment and *usps.com*, produce the balance.

2. Building Customer Awareness and Satisfaction

Many postal customers are unfamiliar with the Postal Service's basic products and services. The central purpose of retail marketing is to address this need. The Postal Service deployed new menu board signage, containing easy-to-understand product and price information to all Post Offices in 2006. The new signage is supplemented with quarterly updates that highlight products most likely to be used during that time period. Additional signage in support of passport application acceptance boosted sales of this key retail service.

The Postal Service continued its Postal Team Makeover efforts to provide a consistent retail experience for customers. Currently, 26,039 registered retail units have completed the standardization process. In addition, 12,149 retail units have completed the Postal Team Makeover program. This program focuses on best practices in operational efficiency, sales skills and product knowledge, and promotion and merchandising. To support the effort, retail ambassador teams comprised of one retail associate and one postmaster/station manager/customer service supervisor from each district have been trained to assist local installation heads in improv-

ing their lobby condition, in-store message placement, and merchandise display. The Postal Service developed a *Retail Standardization Resource Guide/Toolkit* that guides offices through the process.

3. Point of Service ONE

The Point of Service (POS) ONE system is now used in 15,000 retail locations, providing detailed transaction data for roughly 90% of all postal retail sales. Customers at POS ONE-enabled retail locations receive up-to-date information about available products and services and have immediate access to options and price to make more informed decisions. POS ONE transactional data is incorporated within the Retail Data Mart (RDM), which provides critical business information and reports used for operations planning, sales, and market analysis. 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. These data and customizable reports are available to managers at multiple levels including, most significantly, at the individual retail unit where local managers can now make much more informed and timely decisions about staffing, scheduling, and hours of operation.

The Postal Service transitioned to a single vendor for POS ONE, and 27,539 systems at 6,742 sites were successfully converted from another vendor. The transition process was completed in September and all 15,000 locations now use the same POS ONE software. This conversion will result in more consistent customer service and will reduce support costs by roughly \$70 million over 5 years.

4. Retail Operations

The focus of the Postal Service's retail operation is the effective and efficient deployment, integration, and operation of customer transactions across all types of retail access. These include full counter services, customer self-service, services provided through agents, and online options available on *usps.com*.

A. RETAIL OPTIMIZATION

The Retail Optimization Access Management System (ROAM) is a geographical information tool used to identify current postal, partner, and competitive retail locations. It identifies placement of retail service points based upon demographic reports, market profiles, and retail expenditure reports, as well as driving times. This information assists in improving effectiveness in managing the retail network and optimizing the placement of retail locations. The application was brought in-house and now utilizes Postal Service logon functionality.

In tandem with a number of initiatives to expand and enhance online, self-service, and carrier-provided services, the Postal Service expanded hours at more than 1,400 Post Offices and added new service options through retail and online partners. Even without counting pickup services, which are available to every customer, at every address, customers now have more ways and places to do business with the Postal Service than ever before.

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B. WEB BOX ACTIVITY TRACKING SYSTEM

The Web Box Activity Tracking System (WebBATS) is a Web-enabled centralized application that improves the access, speed, and reliability of tracking Post Office box services. It also supports marketing to areas with high box vacancy rates. WebBATS provides a foundation for future expansion to include Internet access, which would allow the Postal Service to offer customers the convenience of reserving and renewing a Post Office box online. Future online rentals and renewals will be more cost effective than retail counter transactions.

5. Retail Alternative Access

The Postal Service continued communications efforts designed to build customer awareness of the many convenient alternate access options available to customers that need to purchase stamps and mail packages. Conducting postal business online or by self-service solutions helps control postal operating costs and greatly enhances customer convenience by expanding the times and locations that services are available.

A. USPS.COM

The Postal Service continued to use Internet technology to provide products and services that meet the varied needs of business and consumer customers. The Postal Service's Web site, *usps.com*, is a vital business channel which broadens access to products, services, and information. In 2006 *usps.com* received 312 million visits, 15% more than 2005. Enhancements to online content and applications have driven growth by making it easier for customers to find products, services, and information."

The Postal Store portion of *usps.com* was redesigned to combine online shipping supplies with the existing stamp and retail storefronts. The Web site is now more efficient for customers, with a 25% decrease in the time it takes for customers to find products and transact business.

The Postal Service enhanced its Web Tools application programming interfaces (APIs) so that Delivery Confirmation service is now electronically acceptable by APOs and FPOs. Enhancements were also made to the APIs for customs forms to make it easier to mail packages internationally.

B. AUTOMATED POSTAL CENTER

The Automated Postal Center (APC) is a convenient kiosk that provides customers with quick, easy, and convenient access to postal products and services that retail customers most frequently buy. The majority of the 2,500 APCs deployed in 2004 are available 24 hours a day, 7 days a week. APC transactions grew to 70.5 million and revenue increased 34% from last year. Retail sites with APCs have been able to reduce wait time in line and have slightly higher customer satisfaction scores. The Postal Service will maximize the usage of APCs by relocating them to the inner lobbies of Post Offices in the customers' direct line of sight. An analysis of nonpostal sites is also being conducted to determine if there are opportunities outside of Post Offices. In 2007, the goal is to increase APC-eligible revenue by 12%.

D. STAMPS ON CONSIGNMENT

The Stamps on Consignment program offers First-Class Mail stamps in commercial venues such as ATMs and grocery, drug, and convenience stores. This program generates approximately 5% of the Postal Service's

total retail revenue. It benefits retailers by creating customer traffic and is quick, easy, and convenient. Future plans include expansion of this service to other retailers who have not formerly considered making stamps available to their customers. This program has the potential to exceed \$1 billion in revenue in 2007 and is the highest alternate access revenue channel.

E. POSTAGE TECHNOLOGY INITIATIVES AND SECURE ELECTRONIC SERVICES

Postage meters and PC Postage products provide an alternative access channel for all customers — from households to national accounts. These products make it more convenient for customers to mail with the Postal Service by integrating services such as insurance and Delivery Confirmation with postage payment and by making it easier to print shipping labels and account for postage paid. The number of choices for customers continued to increase with the introduction of new products and enhancements.

Enhancements to PC Postage include the introduction of two dedicated print devices available for purchase. PC Postage technology also continued to support enhancements to Web based services, such as eBay and Click-N-Ship. The popularity of PC Postage is evidenced by a more than 45% increase in revenue and a 17% increase in registered users. PC Postage represented more than 12% of all alternative retail access revenue. It is the second highest alternate access revenue channel.

New products continued to be approved for postage meters, including further integration of information-based indicia (IBI). IBI is a digital two-dimensional barcode that includes postage payment and other related service information. Continuing introduction of new products is important to provide the widest selection of options to customers that may be utilizing a postage meter that the Postal Service has scheduled for decertification.

The Postal Service launched the third phase of a market test of Customized Postage. Customized Postage utilizes PC Postage technology to allow customers to personalize postage by uploading a digital image that can be printed with IBI. This service is provided directly to customers by authorized companies. The third phase allows images which consist of notices or advertisements. This year customers bought 25 million personalized postage indicia.

F. CONTRACT POSTAL UNITS

Contract postal units (CPUs) provide another retail access location for customers. Typical CPU locations are supermarkets and drug stores. Many feature evening, weekend, and holiday hours. There are approximately 4,200 CPU locations with performance-based contracts making up 27.8% of this total. The convenience store industry is the fastest growing segment of the CPU program with more than 156 locations in operation. Contract Postal Unit Technology (CPUT) contains information on all CPU contracts and generates invoices for contract payments. Almost 800 CPUs use the RAMM-60 (Real-time Accounting Management and Metering) weighing and rating system to automate the selling of postal services. CPUs are the third highest alternate access revenue channel.

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G. POSTAL SERVICE APPROVED SHIPPER

The Postal Service developed the Approved Shipper Program to improve the quality of postal information given to customers by third-party retail establishments. Unlike CPUs, these retailers do not provide services under contract with the Postal Service and receive no compensation. However, they routinely accept letters and packages and tender them to the local Post Office on behalf of their customers. The Approved Shipper Program provides participating retailers with standard product information and signage, which protects the Postal Service brand, improves compliance with aviation security procedures, and minimizes the incidence of inaccurate information. To participate in the program, retailers must sign a license agreement and receive approval from the local Postal Service district. The Postal Service began a pilot of the program in the Southwest Area in 2005 with more than 700 stores joining the program.

K. Pricing and Classification

The Postal Service continued to pursue innovation in pricing by adopting a strategy that customizes and simplifies rates and requirements and promotes pricing that better represents the value derived by customers. In embracing this strategy, the following initiatives were developed or implemented in 2006.

1. Negotiated Service Agreements

A negotiated service agreement (NSA) is a mutually beneficial customized agreement between the Postal Service and a customer, designed to increase mail volume, enhance mail preparation, and reduce Postal Service costs when possible. The Postal Service successfully litigated and implemented one new baseline NSA, began litigating a second baseline agreement, and submitted the extension of an existing NSA to the Postal Rate Commission (PRC).

The PRC approved the Bookspan NSA, the first baseline for Standard Mail service in May. The NSA provides Bookspan incentives to increase its use of Standard Mail letters to solicit members for its book clubs. The Postal Service in turn will receive revenue generated by increased Standard Mail volumes, and additional revenue from the volume generated by new club members. The Bookspan NSA sets important precedents by establishing volume-based pricing without associated cost savings, and by extending NSAs to Standard Mail service. The second new baseline NSA, with Washington Mutual Bank (WMB), requires WMB to convert 90% of its marketing volumes to First-Class Mail. The Capital One extension allows the current agreement to be extended for 1 year.

2. Priority Mail Flat-Rate Box

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

3. Repositionable Notes

In April 2006, the Postal Service extended the 1-year experiment for Repositionable Notes (RPNs) placed on the outside of letter and flat mailpieces. This experiment was originally launched in April 2005. RPNs provide customers the ability to complement their First-Class Mail, Periodicals and Standard mailpieces with removable messages to their customers and potentially to generate higher response rates to their mailings. RPNs can be used as another means for mailers to advertise a product or service directly on a mailpiece.

4. Parcel Return Service

Parcel Return Service (PRS) allows participating mailers to retrieve returned parcels in bulk from designated postal facilities, providing them with additional convenience and cost savings while benefiting the Postal Service by reducing costs. PRS was in 1,848 postal facilities including bulk mail centers and delivery units. Launched in October 2003 as a 2-year test, PRS generated \$36 million this year. The Postal Service filed a request before the Postal Rate Commission (PRC) in October 2005 to make PRS a permanent classification. The PRC approved an unopposed settlement of the case in March and the Board of Governors implemented the permanent PRS classification in April.

5. Co-palletization Drop Ship Incentives

The Postal Service continued the Co-palletization Drop Ship Incentives experiment which attempts to control the cost of Periodicals processing by offering mailers additional discounts that encourage the use of pallets and drop shipping. The experiment encourages smaller circulation publications to co-palletize and drop ship their mail and gain discounts otherwise accessible only to larger circulation publications. Handling mail on pallets instead of in sacks is more cost-efficient for the Postal Service. The experiment is scheduled to run through the implementation date of the R2006-1 Omnibus Rate Case, when it will be replaced by a new pricing structure that includes other incentives that will encourage co-palletization and drop shipping.

6. Escrow Rate Case (R2005-1)

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

7. Omnibus Rate Case (R2006-1)

On May 3, 2006, the Postal Service filed an omnibus rate case to cover a projected revenue shortfall of about \$5.9 billion in fiscal year 2008. Featured among the proposed rate changes are a 42-cent stamp for 1-ounce First-Class Mail letters and a \$4.65 rate for 1-pound Priority Mail pieces. The Postal Service also proposed a new classification for a "forever stamp," which will always be valid for the first ounce of First-Class Mail letters, regardless of intervening rate changes. Also proposed in the filing new pricing for certain Priority Mail pieces that are based on the size of the piece as well as its weight, and a more detailed rate design structure based on shape for First-Class Mail and Standard Mail. The PRC is expected to render its decision on the proposed rates in March 2007.

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8. Postage Statement Redesign

In January 2006, the Postal Service released redesigned postage statements. The new format is modular in design and allows customers and software developers to use only the sections of the form they need. This new model provides ease-of-use for both customers and employees. By redesigning the forms, the Postal Service was able to reduce the number of forms from 43 to 11.

9. International Price Adjustment

On January 8, 2006, the Postal Service implemented its first comprehensive change in international prices and fees since January 2001. The overall 5.9% increase was designed to be in line with the 5.4% across-the-board domestic rate increase that was also implemented on the same date. However, additional adjustments were needed for some services and country groups to ensure that the associated costs were adequately covered. In addition, certain Express Mail and Air Parcel Post rate groups were realigned based on operational changes.

10. International Classification Changes

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

L. Information Technology

1. Advanced Computing Environment/Upgrading the Infrastructure

The Advanced Computing Environment (ACE) is a comprehensive effort that standardizes hardware and software products for all users and enables centralized support. The Postal Service is standardizing its printing environment with the Printing and Imaging Environment (PRIME), which will reduce costs and improve functionality. PRIME all-in-one devices typically provide scan to e-mail, copy, print, and fax services and significantly reduce the number of devices needed. To date, 2,433 PRIME devices are in place, and 10,650 devices—including more than 7,800 printers—have been targeted for disposal or relocation.

2. Information Security

To avoid security breaches, the Postal Service implemented a number of controls over its computer equipment and data systems. The most important control included encryption of sensitive data, especially on removable media, and management of data accessible outside the organization. Encryption is incorporated on workstations and removable media used in offices with sensitive data. Use of non-secureable peripheral memory devices is not permitted. All remote access to internal networks is controlled through registration. The new controls will quarantine those who do not qualify for access. The controls also require a review of all the people who have access to sensitive data and the type of access they have. New policies place controls on personal information resources brought into postal facilities and prohibit use of nonpostal devices to access the Postal Service Intranet or to store Postal Service information.

Guidelines were issued encouraging managers to limit the assignment of laptop computers to employees.

3. Network Upgrades

The Postal Service continued enhancing the computing infrastructure by completing 2,500 upgrades to the Wide Area Network. Slow speed dial-up connections to the network at 4,200 smaller facilities have been upgraded to higher (broadband) speeds. The remaining upgrades to dial-up sites are scheduled for completion in 2007.

The BlackBerry wireless communications system continues to provide remote communications capability to 6,200 Postal Service employees including Continuity of Operations team members, even when Postal Service facilities are without power or shut down. Features such as e-mail and the eApprover application enable managers to keep workflow moving remotely — anytime, anywhere.

4. Enterprise Data Warehouse

Initiated as a repository for key retail information and transactions, the Enterprise Data Warehouse (EDW) is now the central source of information on retail, financial, and operational performance, serving thousands of users each day. Enhancements to the system that were implemented in 2006 are enabling cross-functional analysis. In 2007, the Postal Service will focus on how to push critical information to decision-makers and generate exception reports and alerts, rather than standard status reports.

M. Intelligent Mail

For more than two decades, barcodes have been at the core of major advances in service quality and productivity growth. Automated mail processing — driven by barcodes — allowed the Postal Service to reduce costs at the same time it helped promote more rapid, reliable, and consistent service. Today, the vast majority of mail is barcoded, mostly by customers. The remaining codes are applied during processing by automated equipment that “reads” the address and converts it to a code. In either case, the barcode is the “map” that directs mail to its destination.

The Postal Service teamed with customers to take a critical next step in automation, with the introduction of the Intelligent Mail barcode. The new code contains triple the information of previous barcodes, greatly expanding the “intelligence” available from mail and thus its capacity for tracking and automated sortation. Ultimately, this new capacity will enable *total mail visibility* — the ability to “see” individual mail of all types at all steps in the process — from creation by the mailer and deposit with the Postal Service, through various stages of transportation and processing, up to the point of delivery. To date, mailer feedback on Intelligent Mail barcode readability and CONFIRM reporting has been very positive.

A similar unique barcode is also being deployed for parcels, the integrated parcel barcode (IPB). This barcode conforms to different standards in the parcel market, but its benefits are similar to those created by the Intelligent Mail barcode for letters and flats. It contains information about the package and the shipper, improving processing and providing end-to-end visibility for every package. As with the progress on letter and

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flat mail visibility, the infrastructure to provide package visibility is coming into place. Shipment Confirmation Acceptance Notice procedures were initiated to provide “start the clock” scans and allow service measurement for Carrier Pickup mail. The Automated Postal Center, Click-N-Ship, and mailer applications were enhanced to enable them to use the IPB. The internal use of package scans from processing equipment is expected early in 2007. The process to transition to full package visibility is expected to be completed by 2009.

The vision of *total mail visibility* relies, to a large extent, on the increasing use of intelligent barcodes and labels. However, the ability of postal systems to use and communicate data about mail quality, status, and location is what creates value for mailers and for the Postal Service. Better mail flow data will improve postal scheduling, provide multiple new ways to address quality problems, and create cost-saving opportunities. Visibility data will be used to identify operational issues and eliminate bottlenecks. By using CONFIRM and Delivery Confirmation services, mailers will be able to track their mail as it moves through the network. This opens up many opportunities for them to better serve their customers. The visibility data will enable broader service performance measurement and has the potential for new uses and products for mailers and the Postal Service.

1. High-Quality Addressing — Current, Correct, and Complete

Good addresses have two essential characteristics — they accurately describe a delivery point and they identify the addressee(s) who receive mail at that location. Estimates of the amount of mail that is undeliverable-as-addressed (UAA) are in the billions of pieces. UUA mail is mail that the Postal Service cannot deliver as addressed and must be forwarded to the addressee, returned to the sender, sent to a mail recovery center, or treated as waste (Standard Mail). Besides the countless messages that are delayed or never reach intended recipients, bad addresses cost the Postal Service over \$1 billion annually. The Postal Service's Transformation goal is to cut UAA mail in half by 2010. It plans to achieve this by working with mailers to validate address information and improve the quality, accuracy, and timeliness of address lists.

A. REFINING THE ADDRESS DATABASE

Efforts to improve address accuracy begin with ensuring that addresses include all the necessary elements and are formatted correctly. The next step ensures that mailing addresses match a corresponding address in the Address Management System (AMS) database. The Postal Service uses AMS audits in delivery units to verify the accuracy of the AMS database. The Postal Service took additional steps to improve its database quality. It deployed the Delivery Sortation Management Automated Research Tool (DSMART), which uses mail processing data to identify addresses that receive mail but are either not in the AMS database or cannot be sorted to delivery point. Delivery managers can then update AMS with the correct address. Other software identifies businesses in high-rise buildings whose mail is not sorted in delivery point sequence (DPS). Delivery managers then enter the business names into AMS and link the name with the correct DPS-level address. During processing, software links those business names with the proper suite number in AMS. Business name data was made available to mailers in a new product called SuiteLink.

B. IMPROVING LIST QUALITY

The Postal Service has announced that after August 2007, Coding Accuracy Support System (CASS) certification will only provide a ZIP+4 code for addresses that exist in the AMS database. The software will not provide a ZIP+4 code for addresses that are not confirmed. Mailpieces that do not match will not qualify for an automation discount. This change will dramatically improve automation compatibility, especially barcoding at the delivery point level. Customers can correct nonmatching addresses using Address Element Correction (AEC) software.

The Postal Service proposed new mail preparation standards published in the Federal Register. They will be adopted with the implementation of the pending rate case. The proposed rule is an aggressive step for reducing UAA mail. Where previously CASS certification was only required to qualify for automation discounts, the change will require CASS certification for all discounted mail by July 2009. This is a key step that will drive changes in list management practices. The notice also specified pricing incentives to encourage faster conversion to the Intelligent Mail barcode and increase use of the Address Change Service (ACS) software.

C. MANAGING CHANGE OF ADDRESS DATA

In addition to using a valid delivery address, eliminating UAA mail requires using the customer's current address. The Postal Service is focusing on two areas to improve the timeliness of addresses: the initial capture of change of address (COA) information and the processes used to update data on mailing lists.

Initial capture of COA information from movers through the increased use of electronic options (Internet and phone) is steadily improving the quality of address information. Electronic COA procedures offer a number of advantages over hardcopy forms; it is more convenient for movers and can be linked to other move-related activities through Internet links. Transcription errors and manual keying of COA data is eliminated when movers enter their COA information electronically. Most importantly, electronic COA channels allow instantaneous address validation when a customer submits the COA, reducing the number of incorrect or incomplete addresses. Since the moving season began in May, new records for online COA transactions have been set each month. The annual total of 5.6 million electronic online COAs is a 32.6% increase compared with last year. The goal is to have nearly half of all COAs completed online by 2010. This target is not unrealistic since a large percentage of movers are already comfortable using the Internet for many transactions.

Best practices for maintaining correct addresses include using both premailing tools like the NCOA software and postmailing tools like the ACS software to verify move updates. Both of these tools have recently been enhanced. NCOA licensing procedures implemented in 2005 added levels of services and increased flexibility resulting in customers running and matching more address records. The September 2006 deployment of OneCode ACS for letter-size First-Class Mail enhanced the ACS offering. In addition to allowing mailers to update addresses for customers that have moved, the use of the Intelligent Mail barcode provides them with more information about their mail. Most importantly, the Intelligent Mail barcode provides an electronic link that drives down the cost of the ACS processing and increases use of ACS to update addresses on mailing lists. OneCode ACS for Standard Mail letters and for AFSM 100 flats will be available in 2007.

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2. Streamlining Commercial Mail Acceptance

Commercial mail acceptance is becoming greatly simplified, thanks to a seamless flow of information among customers, mail services providers, and the Postal Service. Instead of depositing their mail and then checking later to see when delivery occurs, mailers have much greater visibility into the Postal Service's processing and transportation network. The Postal Service, in turn, gets advance knowledge of mailing and can ensure that the right level of resources and support are available. Entry is streamlined by the Facility Access and Shipment Tracking (FAST) system, that uses intelligent barcodes on mail and containers, and electronic documentation. When mail is correctly prepared and documented, verification can be completed as mail is processed. Visibility data on when mail first arrives at a postal facility will provide "start the clock" information for both customer tracking and service measurement.

Before accepting a mailing and providing a discount, the Postal Service must check the mailing against preparation requirements to ensure the customer is eligible for the requested rate. Poorly prepared mail adds cost and affects service performance. Manual verification is time-consuming and is often inconsistent from one postal acceptance unit to the next. Consequently, an important element of the Postal Service's seamless acceptance strategy is the verification of mailings during automated mail processing. In the future, mailers' documentation will be validated as mail flows through the system.

The foundation of a number of improvements in payments is the *PostalOne!* system, an integrated mail management technology that includes FAST scheduling, centralized payment processing, and electronic postage reports. Instead of making multiple payments at multiple facilities, eligible mailers can have a single account that is debited when mail is accepted at any facility. Electronic documentation eliminates paperwork for both the Postal Service and the mailer, making the process quick, easy, and convenient. Mailers can check an account online and replenish it at any time. Both large and small volume mailers use *PostalOne!* today.

3. Enhancing Transportation Visibility

With the deployment of the Intelligent Mail Device (IMD) scanners, the Surface Visibility system began using barcode technology to track mail through the Postal Service's processing and transportation network. Surface Visibility tracks the quantities and movement of mail between operations and destinations whether transportation is supplied by mailers or the Postal Service. This system was originally designed to improve the Postal Service's own transportation network but was expanded to benefit the larger mailing community. Information available to the Postal Service is also available to mailers, making the entire value chain more transparent.

As mailers' containers arrive at postal facilities, container barcodes are scanned. Scanned data is integrated with the FAST system and matches the incoming mail data to the mailers' electronic manifest. Information about a mailing is recorded as it first arrives at a facility and when container unloading begins and ends. The data serves two purposes: it enables accountability for contractors that print, prepare, and deliver mail to the postal facility and it also identifies when mail enters the postal processing network. Trucks and containers traveling between postal facilities are scanned and tracked from one step to the next using the new scanning devices. Quality controls embedded in the visibility systems

reduce misdirected and misdelivered mail. Visibility data enhances the management of transportation contractors and provides more complete data for network management.

4. Tracking Mail in Processing Operations

Total mail visibility depends on an integrated set of information systems and intelligent barcodes applied not only to individual mail, but to all containers and equipment as well. Individual mailpieces are nested into barcoded containers to enable tracking by linking the coded identifiers for the container to individual pieces within the container. Both mailers and internal postal operations can use a new Web based system, the Automated Tray Label Assignment System (ATLAS), to produce Enhanced Distribution Labels (EDLs). The EDL is an "intelligent" label that uniquely identifies the mailer or originating postal facility and provides a unique identifier for each tray, sack, or tub. The EDL also provides routing information and is used by the ATLAS system to track those unit loads throughout operations. During 2006, ATLAS/EDL enabled the Surface Visibility system at 131 facilities. By year-end EDL production already exceeded 10 million weekly.

In conjunction with the adoption of the Intelligent Mail barcode and the implementation of the Surface Visibility system, upgraded software was deployed to enable letter and flat sorting equipment to use the new barcodes for sorting and tracking mail. Processing equipment tracks handlings of containers, unit loads, and individual mailpieces in processing and distribution operations. Employees in these operations manually scan unit loads and containers as they load and unload the containers. Similarly, employees scan containers and trucks when loading and unloading trucks.

5. Visibility in Delivery Operations

Data from the point of delivery closes the loop — providing confirmation or proof of delivery. Giving mailers timely feedback on the ultimate delivery of a mailpiece is key to gaining insight into service, and all prior steps in the mail value chain lead to this. Much of the visibility process is already in place in delivery operations. At delivery units, manifests identify drop-shipped mail. Carrier scans at the point of delivery will confirm delivery of Express Mail, mail with Delivery Confirmation or Signature Confirmation, and accountable mail. Tests have been conducted to establish procedures for extending Surface Visibility into delivery operations. Because individual mailpieces already have been linked with containers at the plant, scanning containers as they arrive at delivery units will enable tracking of mail to delivery.

Much of the mail that arrives at delivery units with an incomplete or incorrect address or barcode is still delivered because carriers can often identify the addressee. Unfortunately, mailers often resend mail with the incorrect address repeatedly, unaware of the address quality issues. In the future, Postal Service systems will be able to capture local delivery knowledge to provide mailers with a corrected address.

Hand-held mobile data collection devices are essential elements of an Intelligent Mail system. The Postal Service completed first article testing of the new mobile data collection devices, the IMD, as part of the Intelligent Mail Data Acquisition System. The new handheld devices include an imager capable of reading all Postal Service barcodes currently in use and the new intelligent barcodes. The IMD provides additional features such

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as signature capture. The Postal Service expects to deploy more than 300,000 devices to support the Mobile Data Collection Device replacement program during 2006 and 2007.

6. Intelligent Mail Infrastructure Upgrades

The backbone of all Postal Service automation programs is a local area network (LAN) at each plant that provides the underlying data handling infrastructure. The LAN is the conduit for downloading ZIP Code directories and sort plans to mail processing equipment, moving images of individual mailpieces for ZIP Code resolution, and transmitting operating and mail tracking data to computer servers for processing. With the increase in scope and sophistication of automation, these LANs must be replaced. The Postal Service continued the LAN, replacement deployment program, known as Mail Processing Infrastructure (MPI) and now has upgraded more than 200 plants. MPI uses a flexible, structured wiring infrastructure to provide the highest reliability, scalability, and manageability at the least cost.

N. Financial Management

1. Activity-Based Costing

Activity-Based Costing (ABC), a cost management system, 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 three ABC models that provide information about the costs of activities at each major mail processing facility. ABC expanded its portfolio with the development and publication of the Logistics & Distribution Center (L&DC) model. With ABC's existing plant and bulk mail center (BMC) models, this provides metrics by total cost, individual cost component, and cost per thousand pieces processed. Having this data helps the Postal Service identify money makers and money losers as well as discover opportunities for cost improvement.

The Postal Service developed new ABC reports that integrate financial and productivity indicators at the activity level for both plants and BMCs. A user can view employee straight-time and overtime salary costs. They can also view actual and target productivities and the approximate costs of not achieving productivity targets for each major activity by facilities. Other reports provide the capability of drilling down further for more detailed data on labor and support costs. Reports are updated each month and are available to postal managers and staff on the internal ABC Web site in both Adobe PDF and online analytical processing formats. Ongoing training in the use of ABC models and reports is provided as required.

2. Financial Reporting

Since 2004, the Postal Service has complied voluntarily with the Securities and Exchange Commission (SEC) financial reporting requirements to the extent that those requirements can be applied to a nonpublicly traded, government-owned entity that sets prices to cover costs. Voluntarily complying with SEC financial reporting requirements has further enhanced the Postal Service's financial reporting and transparency. Postal Service quarterly reports conform to SEC Form 10-Q

reporting requirements and include an enhanced management discussion and analysis section as well as sections reporting revenue by major product and expense by function.

The Postal Service changed from accounting period to monthly reporting in 2003, to align its quarterly reports with traditional calendar quarters. This facilitates comparison of Postal Service financial reports with those of other federal agencies and of private sector competitors. The Postal Service provides public notice of significant actions and events that could impact finances. These notices are posted as Financial News Releases on the Postal Service's Web site at usps.com/financials/.

The Financials section of the Postal Service's publicly accessible Web site provides in-depth reporting on the organization's financial performance. This section provides traditional financial reports for both current and some prior years, including monthly reports; quarterly financial reports; annual reports; annual cost and revenue analysis reports; annual cost segment and components reports; quarterly and annual revenue, pieces, and weights reports; annual comprehensive statements on postal operations; and annual integrated financial plans. Additional Postal Service reporting is available to the public on the PRC Web site at www.prc.gov.

3. Bank Secrecy Act Compliance

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

The Postal Service maintains an automated reporting system to comply with BSA. This system supplements the point-of-sale efforts and detects potentially suspicious activity that may not be discernible at point-of-sale transactions. To ensure compliance with the BSA's reporting and record keeping requirements, annual training is provided to all employees associated with the sale of money orders or the Sure Money product as well as to those who supervise such employees. The Postal Service continued to provide a series of focused communications on anti-money laundering compliance to all officers, area, and district managers.

The Postal Service ensures the security of data gathered through the BSA compliance system. Understanding that gathering information from members of the public is a sensitive issue and that information must be safeguarded, all sensitive information in the BSA database is restricted, thereby reducing the risk of unauthorized disclosure. The Postal Service ensures that the proper balance is maintained between compliance with law and regulation and protection of the public's right to privacy.

Chapter 2 **Postal Operations**

4. Internal Controls

The Internal Control Group (ICG) was established in 2003 to oversee compliance with Postal Service policies and processes and enhance the transparency of financial reporting. Trained internal control analysts partner with management to identify weaknesses in controls through analysis, risk assessment and review, determine the root causes of deficiencies, and make recommendations for improvements. Since the group's inception, Internal Control analysts have conducted reviews in field units and have evaluated internal control effectiveness in financial, revenue and performance areas. They have reported their findings and recommendations for improvements to control processes to field unit managers.

At the end of FY 2006, ICG was preparing to implement structural changes that would enable it to better focus on the review and evaluation of financial controls and its reporting of its findings to managers responsible for the evaluated controls. This restructuring will allow ICG to support ongoing Postal Service efforts to validate the sufficiency and effectiveness of internal controls that impact its financial reporting. ICG will determine the effectiveness of internal controls through assessments of financial systems, processes and, procedures that are intended to maintain accurate data reporting, compliance with Postal Service policies, rules and regulations, and the reliability of reporting of management's reporting of financial results.

5. Capital and Program Evaluation Project Management Web Site

The internal Web site for all Headquarters Decision Analysis Reports (DARs) continues improvements by containing all documents, exhibits, and correspondence related to project development, review, and approval. The Quarterly Investment Highlights Report was added to the site in 2006. This quarterly report tracks the performance of Board-approved projects from the time of approval, through implementation, and up to 18 months after full deployment. Headquarters management now has access to the online version through the elimination of more than 175 hardcopies. This enhancement alone has resulted in savings in printing costs, benefited the organization by controlling access to business-sensitive information, increased ease of use for officers, executives, and program managers, and reduced cycle-time associated with the publication of the report. The Web site improves the development, preparation, and review of investment decision electronic documents, provides a centralized, secure, and easily accessible Web based repository for investment decision documents, and provides a more efficient and streamlined DAR development and tracking process that helps to advance projects and their potential savings.

Chapter 2 **Postal Operations**



14:00

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Convenient. Go online at usps.com. Your letter carrier
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Chapter 3 Financial Highlights

A. Financial Summary

To avoid redundancy between the *2006 Annual Report* and this *2006 Comprehensive Statement on Postal Operations*, financial highlights presented here are in a condensed format. Discussion and analysis focus specifically on Postal Service financial results for 2006, aspects of financial management on which Congress has requested that the Postal Service report, business programs on which the Postal Service is required to report, such as the *Breast Cancer Research* and the *Heroes of 2001* semipostal stamp programs, and topics of particular interest to Congress, such as appropriations. A more detailed analysis of the financial results is provided in the Postal Service's *2006 Annual Report*.

1. Revenue

Revenue growth exceeded the projections in the operating plan. The increase was primarily due to an across the board rate increase of 5.4% implemented on January 8, 2006. Total revenue was \$72,817 million, 4.0% greater than in 2005.

Total volume for the year was 0.7% above the 2005 total and some alterations in the composition of total mail volume must be noted. The mailstream has changed significantly since 2001 when First-Class Mail was the largest component. In the past 5 years, First-Class Mail volumes declined 5.9%, while Standard Mail volumes grew 14.0%. Standard Mail volume exceeded First-Class Mail volume for the second consecutive year, as shown in Table 3-1. The Postal Service expects this shift in the mail mix to continue. While Standard Mail service now leads volume growth and has overtaken First-Class Mail in the mailstream, it provides an average of only 19 cents in revenue per piece. First-Class Mail provides an average of 37 cents per piece. Standard Mail has also been more susceptible than First-Class Mail to fluctuations in the economy. Consequently, although 2006's volume set a new record of 213 billion pieces, the shifting mix of mail has affected revenues substantially.

First-Class Mail consists predominantly of single-piece and workshared volume. For many years, single-piece First-Class Mail volume has been in decline and has been offset only partially by growth in workshared First-Class Mail volume, resulting in the trend of lower First-Class Mail revenues and volumes. eCommerce and electronic messaging are slowly replacing personal paper based correspondence and paper based commercial transactions using First-Class Mail. The rate of Standard Mail volume growth in 2006 was the lowest since 2002, when a recession resulted in the decline of advertising expenditures in all economic sectors and media. Standard Mail's relatively weak volume growth is attributable to lackluster growth in Standard Regular Mail of 1.7% as well as a decline of 13.8% in Nonprofit Enhanced Carrier Route Mail. Despite weaknesses, Standard Mail continues to hold its ground in the advertising market by virtue of its two dominant characteristics: it can be targeted to specific audiences and its effectiveness can be measured.

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

Mail volume and revenue growth are dependent on the economy, the underlying demand for postal services, and the attractiveness of competitive alternatives. Growth in economic activity in 2006, as measured by gross domestic product (GDP) and retail sales, continued to be moderate in spite of an ease in oil prices and a downturn in the housing market. Within the parameters of the fiscal year, GDP grew 3.4% in 2006 with continued strength in retail sales.

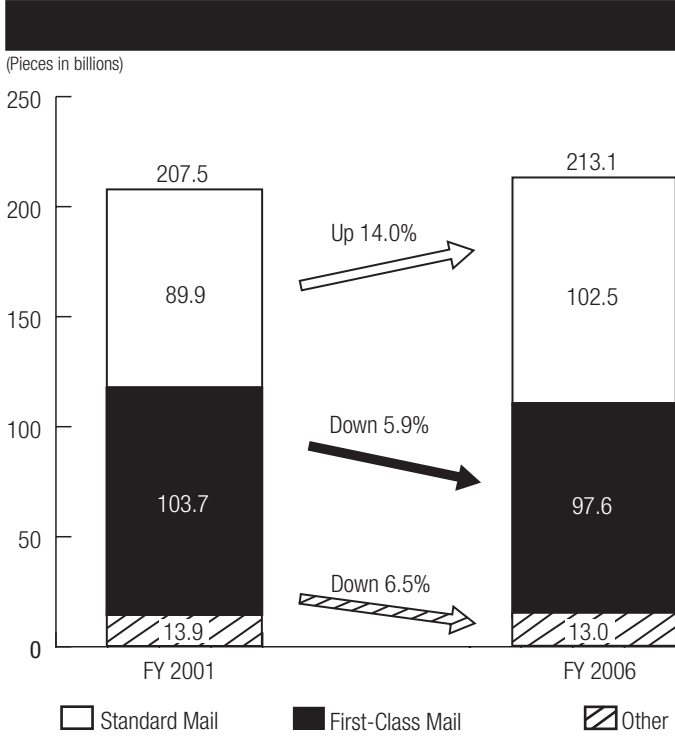
Table 3-1 Total Revenue and Volume by Class of Mail

	2006	% of Total	% Change	2005	% of Total	2006	% of Total	% Change	2005	% of Total
	Revenue (\$ millions)					Volume (pieces in millions)				
First-Class Mail	37,039	50.9	2.7	36,062	51.5	97,617	45.8	(0.5)	98,071	46.3
Priority Mail	5,042	6.9	8.8	4,634	6.6	924	0.4	4.2	887	0.4
Express Mail	918	1.3	5.3	872	1.2	56	0.0	1.8	55	0.0
Periodicals	2,215	3.0	2.5	2,161	3.1	9,023	4.2	(0.5)	9,070	4.3
Standard Mail	19,877	27.3	4.9	18,953	27.1	102,460	48.1	1.5	100,942	47.7
Package Services	2,259	3.1	2.6	2,201	3.1	1,175	0.6	0.8	1,166	0.6
International	1,794	2.5	1.6	1,765	2.5	793	0.4	(6.9)	852	0.4
Other*	3,673	5.0	9.8	3,345	4.8	1,090	0.5	55.7	700	0.3
Total	\$72,817	100.0	4.0	\$69,993	100.0	213,138	100.0	0.7	211,743	100.0

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

Chapter 3 Financial Highlights

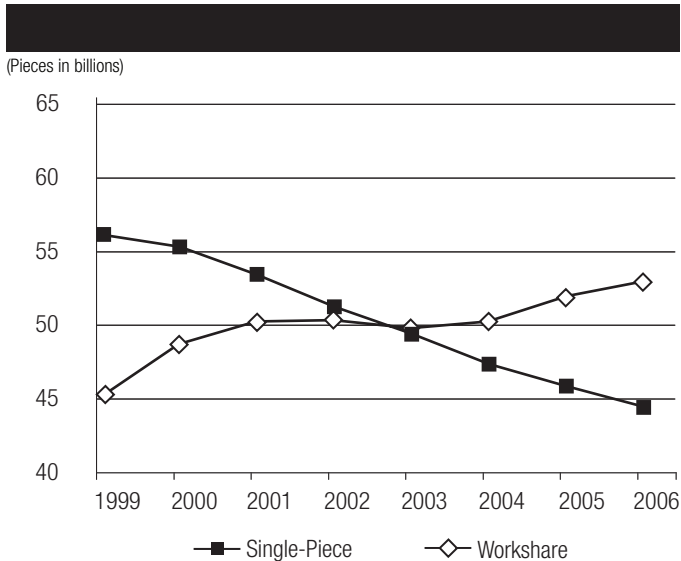
Figure 3-1 Mail Mix Comparison



2. Expenses

Postal Service expenses totaled \$71.9 billion, a 4.9% increase over the previous year and 1.2% above planned expenses. Personnel compensation and benefits, including interest on deferred retirement obligations, dominate Postal Service expenses. Comprising approximately 79% of total expenses, personnel costs grew more than 4%, due to contractual pay increases, employee cost-of-living adjustments (COLAs), and health benefits expenses for current employees and retirees. These costs are detailed in Table 3-2. In 2006, management continued to control personnel costs, reducing career complement by 8,578 employees and reducing total workhours by approximately 5 million. This marked the sixth year out of the last seven in which the Postal Service has reduced total annual workhours. Offsetting the impact of the workhour reduction, costs per workhour, which were driven higher by contractual wage increases, COLAs, and rising health benefit premiums, exerted upward pressure on expenses. Additionally, driven by an increase in the average cost per claim, workers' compensation expenses increased by \$441 million in 2006. Historical fluctuations in this expense are shown in Table 3-3. The Postal Service's primary strategies for controlling workers' compensation costs are to reduce accidents and to identify productive work assignments for those employees who cannot return to their normal duties but are able to work. Health benefits for employees and retirees, another significant expense driver, increased by \$387 million, a 5.9% increase. Total non-personnel costs increased 7.2%, a reflection of the significant fuel price increases of 2006. Interest expense on deferred retirement obligations decreased \$32 million, or 12.1%.

Figure 3-2 First-Class Mail Volume



Chapter 3 Financial Highlights

Table 3-2 Analysis of Expenses

	2006	2005	Difference	% Change
(\$ Millions)				
Personnel				
Compensation	40,570	39,299	1,271	3.2
Benefits	15,711	14,633	1,078	7.4
Compensation and Benefits	56,281	53,932	2,349	4.4
Non-Personnel				
Transportation	6,045	5,437	608	11.2
Supplies and Services	2,643	2,557	86	3.4
Building Occupancy	1,875	1,859	16	0.9
Depreciation	2,149	2,089	60	2.9
Other Costs	2,691	2,409	282	11.7
Total Non-Personnel	15,403	14,351	1,052	7.3
Interest Expense				
Interest Expense — Deferred Retirement	231	263	(32)	(12.1)
Interest Expense — Borrowing	2	2	0	0.0
Total Interest Expense	233	265	(32)	(12.1)
Total Expenses	71,917	68,548	3,369	4.9

Table 3-3 Workers' Compensation Expense and Cash Payments

	Workers' Compensation Expense	Administrative Charge (DOL)	Total Annual Expense	Payments to DOL for Postal Service Active Claims and Admin. Charges*
(\$ Millions)				
1996	718	19	737	531
1997	187	19	206	538
1998	739	21	760	567
1999	583	20	603	585
2000	891	20	911	671
2001	937	33	970	694
2002	1,487	37	1,524	818
2003	1,428	45	1,473	892
2004	1,195	44	1,239	897
2005	782	56	838	885
2006	1,234	45	1,279	863

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

Chapter 3 Financial Highlights

Table 3-4 Income and Expense Statement

	2006	2005	Variance	% Change
Income (\$ millions)				
Mail Revenue	69,144	66,649	2,495	3.7
Special Services	3,407	3,149	258	8.2
Appropriation*	99	109	(10)	(9.2)
Operating Revenue	72,650	69,907	2,743	3.9
Expenses				
Compensation and Benefits	56,281	53,932	2,349	4.4
Transportation	6,045	5,437	608	11.2
Other Costs	9,358	8,914	444	5.0
Total Operating Expenses	71,684	68,283	3,401	5.0
Income from Operations	966	1,624	(658)	(40.5)
Interest Income	167	86	81	94.2
Interest Expense — Deferred Retirement Costs	(231)	(263)	32	(12.2)
Interest Expense — Other**	(2)	(2)	0	0.0
Net Income	\$900	\$1,445	(545)	(37.7)

*2006 Appropriation includes reconciliation adjustment of \$29 million for 2004.

**Includes imputed interest on deferred rent receivable.

3. Net Income

The Postal Service's net income in 2006 was \$900 million. While revenue was greater than planned, rising fuel prices contributed significantly to the increase in transportation expenses and also contributed to increased compensation and benefits expenses through their impact on employee cost-of-living adjustments (COLAs).

While First-Class Mail volume decreased only slightly in 2006, it was the third annual volume loss in the last 4 years for this premium mail class. Prior to 2004, First-Class Mail volume grew reliably each year and its volumes exceeded those of any other mail class. In 2006 Standard Mail volume exceeded First-Class Mail volume for the second consecutive year. The decline of First-Class Mail volume and the growth of other volumes in other mail classes has now been established as a trend and is expected to continue. The increase in total mail volume and the across the board rate increase of 5.4%, implemented on January 8, 2006, contributed to the \$500 million in revenue gain. Net income was less than plan, despite the revenue gain, as increased fuel prices impacted both personnel compensation and non-personnel expenses. This year's growth in costs was slightly tempered by a reduction of almost 5 million workhours. Net income benefited from Postal Service actions aimed at continued management of expenses, a key strategy of the *Strategic Transformation Plan 2006–2010*. Although 2006 expenses were \$3.4 billion more than those of 2005, growth was slightly tempered by the reduction of almost 5 million workhours. The Postal Service was able to manage an increased workload of more delivery points and increased mail volume with a smaller increase in resource usage. As a result of all these factors, total factor

productivity grew by 0.4% in 2006, the seventh straight year of increased Postal Service productivity.

4. Financing Activities

A. DEBT

As an "independent establishment of the executive branch of the Government of the United States," the Postal Service receives no tax dollars for ongoing operations. Self-supporting, it has not received an appropriation for operational costs since 1982. The last time the Postal Service received any substantial contribution of capital from the U.S. government was in calendar year 1977. Operations are funded chiefly through cash generated from operations. However, unlike companies in the private sector, it is not permitted to raise capital through the equity markets. Consequently its only long term means of securing outside capital is through borrowing. The uncertainty of the rate setting process influences the cash management strategy.

The amount the Postal Service borrows is largely determined by the difference between its cash flow from operations, its escrow requirement, and capital cash outlays, the funds invested back into the business for capital investments in new facilities, new automation equipment, and new services. On September 30, 2006, after placing \$2,958 million into a restricted escrow account, the Postal Service borrowed \$2.1 billion to fund capital and operational needs.

In 2005, the Postal Service paid off all existing debt through cash flows created by "savings" from Public Law (P.L.)108–18. That was the first

Chapter 3 Financial Highlights

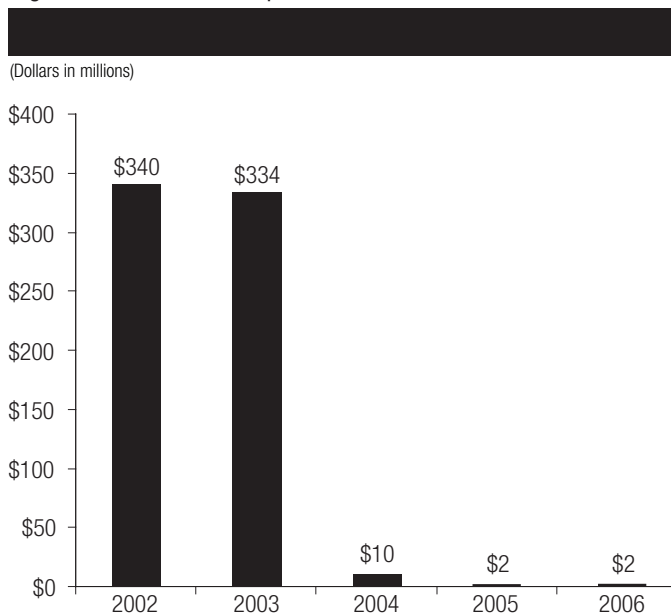
time since the Postal Reorganization Act of 1970 that the Postal Service ended the year with no debt obligations outstanding.

In 2006, after funding the \$2,958 million escrow required under P.L. 108–18, the Postal Service borrowed \$2.1 billion to fund capital investments and provide operating cash for future operations. The September 30, 2006 borrowing provided the Postal Service with two thirds of the \$3,230 million increase in cash from September 30, 2005 levels.

B. INTEREST EXPENSE

The Postal Service undertook debt refinancing actions in 2003, replacing all of the long-term debt obligations with shorter term debt, which laid the foundations for financial gains in 2004, 2005, and 2006. The Postal Service's 2004 and 2005 debt consisted of short-term debt obligations, which provided it with the flexibility to repay debt with available cash on a daily basis. A major benefit of the short-term obligations was the reduction in interest expense payable to the Federal Financing Bank. As a result, the Postal Service was able to virtually eliminate interest on debt in 2004, 2005, and 2006, and reduce interest expense on borrowings to the lowest level since postal reorganization in the early 1970s.

Figure 3-3 Other Interest Expense



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

C. INTEREST AND INVESTMENT INCOME

When the Postal Service determines that its funds exceed current needs, it invests those funds with the U.S. Treasury's Bureau of Public Debt in overnight securities issued by the U.S. Treasury. With reduced or zero debt to repay, the Postal Service took advantage of a build up of cash and a rise in short-term interest rates to earn investment income of \$140 million. This followed on the \$60 million it earned in investment income in 2005.

The Postal Service also records imputed interest on the funds owed it under the Revenue Forgone Act of 1993. Under the Act, Congress is required to reimburse the Postal Service \$29 million annually through 2035 for services it is directed to perform in the public interest. For more information, see Chapter 3, D. Federal Government Appropriations of this report.

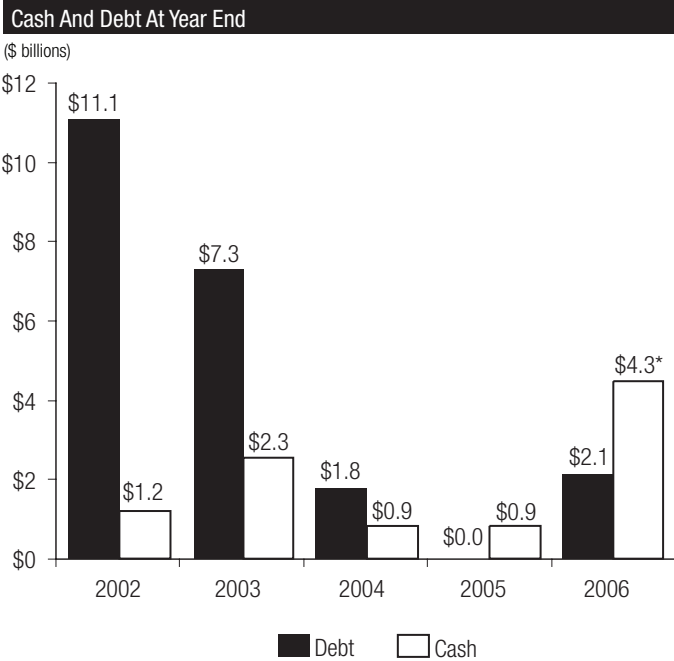
D. LIQUIDITY

Postal Service liquidity is the cash in the Postal Service Fund in the U.S. Treasury; it is the amount of money the Postal Service can borrow on short notice, if needed. The Postal Service's note purchase agreement with the Federal Financing Bank, renewed in 2006, provides for revolving credit lines of \$4.0 billion. These credit lines enable the Postal Service to draw up to \$3.4 billion with 2 days notice and up to \$600 million on the same business day the funds are needed. Under this agreement, the Postal Service also, with 2 days notice, can draw upon a series of other notes with varying provisions. The notes provide the flexibility to borrow short-term or long-term, using fixed or floating rate debt, and can be either callable or noncallable. These arrangements with the Federal Financing Bank provide the Postal Service with adequate tools to effectively manage its interest expense and risk.

Certain statutory provisions limit the amount of funds the Postal Service can borrow. Total Postal Service debt outstanding cannot exceed \$15 billion. In any fiscal year, the net increase in debt at year-end cannot exceed \$3 billion, with no more than \$2 billion of that limit being for capital purposes and \$1 billion for operating expenses.

The Postal Service acted to increase its available cash to approximately \$1 billion on September 30, 2006, up from \$725 million at the end of 2005. The decision to increase its cash balance was made in consideration of an increasingly uncertain business environment. Uncertainties for 2007 include: the results of the Postal Service's collective bargaining with its four major unions; the health of the overall economy; the outcome and impact of the first fully litigated rate case since R2000-1; an aggressive operating plan dependent on continued increases in productivity; further workhour reductions; and, the potential for the enactment of postal legislation with adverse cash flow consequences. Postal Service liquidity in 2007 will be comprised of the approximately \$1 billion of cash that the organization has entering 2007, the cash flow that it can generate from operations; and, the \$3.0 billion that it can borrow, if necessary. As was the case in 2006, in 2007, the Postal Service does not expect cash flow from operations to supply enough cash to fund both its escrow requirement and its capital investments. Consequently, the Postal Service anticipates increasing debt next year by at least \$1.2 billion. However, this projection is not without risks and unfavorable events would cause a re-evaluation of the planned 2007 year-end levels of debt.

Figure 3-4



*FY 2006 Cash includes restricted funds of \$3.0 billion.

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 1 year. The Postal Service invests in capital projects that reduce operating costs, maintain or expand its infrastructure, or provide for the safety and well being of customers and employees. The Postal Service commits capital funds when it signs a contract with a vendor.

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

Capital Commitments of \$1.9 billion were made in 2006 primarily on a capital commitment plan of \$2.9 billion. The underrun resulted from the delay in the development of construction and equipment projects. In addition, the contract for the Automated Packaging Processing System Phase II was not finalized this year as originally planned. These projects, along with some commitment delays to previously approved equipment projects, and benefits from Supply Chain Management initiatives, account for the majority of the 2006 commitment underrun.

The following table summarizes capital by category of investment for the year.

Table 3-5 Capital Commitments

	2006 Actual	2006 Plan
(\$ millions)		
Mail Processing Equipment	645	1,617
Facilities	950	991
Infrastructure and Support	309	263
Retail	0	0
Vehicles	18	21
Total	\$1,922	\$2,892

Mail Processing Equipment commitments included two main projects: the Automated Flat Sorting Machine (AFSM) 100 Auto Induction Phase II and Additional Delivery BarCode Sorter (DBCS) equipment. The AFSM 100 Auto Induction Phase II adds an additional 148 systems, which will automate the preparation and feeding of flats on the existing AFSM 100 systems. The additional DBCS equipment will replace less efficient Carrier Sequence BarCode Sorters.

Repair and alterations performed on thousands of postal facilities throughout the country produced more than \$667 million in facility commitments. The remainder of the Facility commitments was for the construction of the Northeast Metro, Michigan Processing and Distribution Center; Oklahoma City, Oklahoma, co-located Facility and Vehicle Maintenance Facility; and various customer service facilities.

Infrastructure and Support commitments in excess of \$309 million included funding for technology support to replace and enhance national automated data processing hardware and software; Remote Encoding System Development will develop a new letter mail image processing system to replace the Image Processing Subsystem (IPSS), which is approaching its end of life; and the Mail Processing Infrastructure Program Phase III that upgrades the existing base band local area network wiring at 160 mail processing centers and ten remote encoding centers to meet standards for Postal Service structured wiring.

Vehicle commitments were limited to critically needed vehicles to support various field activities. These included minimal administrative replacement vehicles, as well as wreckers and tow trucks for the vehicle maintenance offices.

Chapter 3 Financial Highlights

Table 3-6 Productivity Since 1990

	Total Factor Productivity		Output Per Workhour*		Multifactor Productivity**	
	Annual***	Cumulative From 1972	Annual	Cumulative From 1972	Annual	Cumulative From 1972
1990	2.9	8.6	3.4	13.9	0.4	12.1
1991	(1.8)	6.8	(0.1)	13.7	(0.7)	11.4
1992	0.4	7.2	1.0	14.8	2.4	13.8
1993	3.8	11.0	4.6	19.3	0.3	14.1
1994	(0.2)	10.9	0.8	20.2	0.9	15.0
1995	(1.9)	8.9	(1.3)	18.9	0.0	15.0
1996	(1.3)	7.6	(0.1)	18.8	1.4	16.3
1997	1.3	8.9	1.7	20.5	0.7	17.1
1998	(1.0)	7.9	1.2	21.7	1.4	18.5
1999	(0.1)	7.7	0.9	22.6	1.1	19.6
2000	2.2	9.9	2.0	24.6	1.2	20.8
2001	1.7	11.6	1.7	26.3	0.1	20.9
2002	1.0	12.6	2.2	28.5	1.7	22.6
2003	1.8	14.4	2.3	30.7	2.7	25.3
2004	2.4	16.7	2.5	33.2	2.9	28.2
2005	1.1	17.8	1.4	34.6	1.6	29.8
2006	0.4	18.2	1.2	35.8	1.6	31.4

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

**BLS revised the MFP index and rebased it to 2000–2001. The MFP data for 2005–2006 are estimates of Global Insights, Inc. BLS data for these years have not yet been released.

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

Note: Numbers are rounded.

B. Total Factor Productivity

The Postal Service's 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 an historical measure of efficiency.

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

Multiple factors may cause TFP growth to vary in the short term.

Expenditures to enhance service and improve customer satisfaction may cause short-term declines in TFP growth. TFP can fluctuate from 1 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 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 exceeds that of the industrial and service sectors that are more akin to the Postal Service.

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Worksharing discounts for mailers, for example, impact Postal Service productivity performance as these incentives shift a greater proportion of the workload associated with automation compatible mail to business mailers. While worksharing discounts provide cost savings for the Postal Service and enhance the productivity of the economy as a whole, they do transfer the prime Postal Service opportunities for productivity improvement to partners, the mailers. In contrast, the BLS measure, multifactor productivity, does not factor out self-service or worksharing on the part of the customer. MFP captures the whole of the economy, including productivity that has been transferred between segments.

Table 3-6 shows annual and cumulative TFP and labor productivity compared to MFP for 1990 through 2006. In 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 labor productivity are common. Beginning with 2000, the Postal Service has achieved strong growth in both TFP and labor productivity.

The Postal Service's TFP growth of 0.4% in 2006 marks seven consecutive years of positive growth. Labor productivity growth was 1.2%. This TFP result is equivalent to \$255 million in expense reductions. Cumulatively, from 2000, TFP growth measures 10.4%, equivalent to \$7.0 billion in expense reductions. Labor productivity over this same period grew 13.3%.

In 2006 productivity achievement was driven primarily by a workload growth of 0.8%. Contributing factors of workload growth were a 0.5% contribution in the postal delivery network, weighted mail volume contribution of 0.2%, and a 0.1% contribution in miscellaneous output. The Postal Service was able to achieve TFP growth of 0.4% by managing a larger increase in workload with a smaller increase in resource usage. Labor usage declined by 0.3%, with capital and materials usage each growing 0.4%. The overall resource growth was 0.4%.

The Postal Service plans to continue to improve productivity over time. Postal Service policy targets positive and sustainable productivity growth as an outcome of the net income target in each of its annual budgets. This objective is balanced against the need for service improvements to increase customer satisfaction and remain competitive in the marketplace.

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

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

Congress concluded that, under previously-applied funding mechanisms, future Postal Service payments to the Civil Service Retirement and Disability Fund would result in substantial over-funding of Postal Service obligations to the system. P.L. 108–18 changed the payment mechanism, reduced the Postal Service's funding requirements to avoid overpayment, and directed that the difference between the Postal Service's funding under the previous approach, and the funding under P.L. 108–18 (the "savings"), be applied to reduce debt and maintain rate stability in 2003, 2004, and 2005. Thereafter, the law directed the Postal Service to place the "savings" in escrow, beginning in 2006, until Congress determined the appropriate use for the funds. Although the escrow funds were to be classified as "operating expenses", the Postal Service was not authorized to apply them to any financial or operational use in maintaining the national postal system.

The January 8, 2006, rate increase proposed in Docket no. R2005-1, was effected for the sole purpose of generating the revenue required to fund the 2006 escrow obligation of \$3.1 billion as required by P.L. 108–18.

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D. Federal Government Appropriations

By law, the Postal Service is authorized to receive two types of appropriations from the federal government as reimbursement for its costs of performing certain services. These are for the public service costs incurred in providing a maximum effective degree of universal mail service and for revenue forgone which is reimbursement for providing free mailings to the blind and to overseas voters. In the early years of the Postal Service, a third type of appropriation, "transitional appropriations," provided a means for the federal government to fund costs related to its obligations to the former Post Office Department (POD) and thereby shelter ratepayers from such costs. Workers' compensation costs related to claims that arose prior to July 1, 1971, were the last known POD costs to have been reimbursed. In the Balanced Budget Reform Act of 1997, Congress transferred responsibility for those costs to the Postal Service and rescinded the section of Title 39 United States Code that authorized transitional appropriations to the Postal Service.

The Postal Service remains authorized to request up to \$460 million for public service costs. This is the amount authorized by the Postal

Reorganization Act of 1970 and is not intended to represent the present cost of providing universal service. The Postal Service has neither requested nor received reimbursement of its public service costs since 1982, which may be viewed as a "savings" of \$11.0 billion to the U. S. government and taxpayers. In 1971, the final year of the POD prior to creation of the Postal Service, appropriations totaled almost 25% of total POD revenue.

This year the Postal Service recognized a revenue forgone reimbursement of \$99 million to fund free mail for the blind and for mailing overseas voting materials. This accounted for 0.1% of total Postal Service revenue in 2006. Because legislation delayed payment until future years, this amount remains in accounts receivable at the end of the year.

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

Table 3-7 Historical and FY 2005 Impact of Public Service & Revenue Forgone Appropriations on Operating Revenue 1971, 1976, 1986, 1996, and 2006

Year	Total Mail Revenue (\$ millions)	Mail Revenue Without Appropriations (\$ millions)	Appropriation Category	Income From Appropriation (\$ millions)	Appropriation as a % of Total Mail Revenue
1971*	8,752	6,665	Deficiency in rates, fees, and public service	2,087	23.8
1976			Free and reduced-rate mail	725	
			Reconciliation for prior years	0	
			Public service	920	
	12,844	11,199		1,645**	12.8
1986			Free and reduced-rate mail	750	
			Reconciliation for prior years	(34)	
			Public service	0	
	30,818	30,102		716	2.3
1996			Free and reduced-rate mail	56	
			Public service	0	
			Net impact of Revenue Forgone Act of 1993	37	
	56,402	56,309		93**	0.2
2006			Free mail for the blind and overseas voting	55	
			Reconciliation for prior years	44	
			Public service	0	
	\$72,650	\$72,551		99	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.

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E. Emergency Preparedness Funding

The Postal Service's viability and its value to the American people depend upon an open and accessible mail system. In October 2001, well-publicized incidents of biological terrorism targeted U. S. Senators and members of the media and also affected other untargeted persons. Following the anthrax attacks, it was critical that the Postal Service enhance the safety of the mail system and reduce risks to both employees and customers. To accomplish those ends, the Postal Service implemented new and enhanced technology applications and process changes.

Shortly after the initial bioterrorist attacks, the President of the United States authorized funding of \$175 million to assist in paying for these safety measures. In November 2001, Congress appropriated an additional \$500 million to "protect postal employees and postal customers from exposure to biohazardous material, to sanitize and screen the mail, and to replace or repair postal facilities destroyed or damaged in New York City as a result of the September 11, 2001 terrorist attacks." In August 2002, Congress appropriated an additional \$87 million for emergency expenses.

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

The Postal Service initially recorded this \$1,265 million in federal funding as a liability. Of these funds, \$138 million remain to be committed or expended. The liability is reduced as qualifying expenses are incurred and offsets depreciation expense over the life of capital equipment acquired. In 2006, the Postal Service recognized revenue of \$85 million to offset depreciation charges on this equipment.

Not all emergency preparedness expenditures are covered by appropriations received. Other costs of mail security and employee protection (such as maintenance and consumable supplies) are funded from Postal revenues and charged as operating expenses.

Table 3-8 Application of Emergency Preparedness Appropriation as of September 30, 2006

(\$ millions)	Congressional Appropriation					Presidential Authorization
	2006	2005	2004	2003	2002	2002
Funding Received	0	503	0	0	587	175
Depreciation of Capital Equipment	85	45	92	0	0	16
Non-operating Expenses	0	0	0	177	4	121
Capital Equipment*	0	0	0	0	0	38
Liability Balance at September 30	687***	772**	314	406	583*	0

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

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

***The liability of \$687 million as of 9/30/06 relates to \$615 million of capital equipment that has been purchased but not yet depreciated and \$72 million for which purchase commitments have been made.

Chapter 3 **Financial Highlights**

F. Semipostal Stamps

In 1997 the Stamp Out Breast Cancer Act, P.L. 105–41, authorized the issuance of the first semipostal stamp to raise funds to help in finding a cure for breast cancer. The stamp is sold for 45 cents and is valid for the current cost of a 1-ounce, single-piece First-Class Mail letter. Congress directed that the difference between the price of the stamp and the First-Class Mail rate, less program costs, be directed to two designated research agencies: the National Institutes of Health and the Department of Defense Medical Research Program.

From program inception through the end of 2006, approximately 725 million *Breast Cancer Research* stamps have been sold. Semipostal stamps sold during that 7 year period have raised a net voluntary contribution of \$52 million. The costs associated with the *Breast Cancer Research* stamp include design, printing, packaging, advertising, promotion, training, legal fees, market research, programming for retail automation, and receipt printing costs. The Postal Service deducts selected incremental costs from *Breast Cancer Research* stamp revenues and then pays the proceeds to the research agencies. During the life of the program through the end of 2006, approximately \$1.2 million has been withheld to cover these incremental costs.

The *Heroes of 2001* semipostal stamp, authorized by the 9/11 Heroes Stamp Act of 2001 legislation, provides assistance to the families of emergency relief personnel killed or permanently disabled in connection with the terrorist attacks of September 11, 2001. The stamp was issued in New York City on June 7, 2002, and sold for 45 cents. Like the *Breast Cancer Research* stamp, this stamp is valid for the then current cost of a 1-ounce, single-piece First-Class Mail letter. It was offered for sale through December 31, 2004. A total of 133 million *Heroes of 2001* stamps were sold. This resulted in a contribution of \$10.6 million to the Federal Emergency Management Agency, which is responsible for disbursing payments to eligible participants. The Postal Service recovered \$0.5 million in costs for this semipostal stamp.

The *Stop Family Violence* semipostal stamp, authorized by P.L. 107–67, the Stamp Out Domestic Violence Act of 2001, provides assistance to the programs and organizations fighting domestic violence. The stamp was issued on October 8, 2003. Like the *Breast Cancer Research* and *Heroes of 2001* stamps, it sells for 45 cents and is valid for the current cost of a 1-ounce, single-piece First-Class Mail letter. It will be offered for sale through December 31, 2006. Since inception, over 42 million *Stop Family Violence* stamps have been sold. This has resulted in a contribution of \$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.

Chapter 3 **Financial Highlights**



When carriers return to the Post Office on time, collection mail can move to the next step. There are only 14 hours to process millions of pieces of mail before the next delivery begins.

UNITED STATES
POSTAL SERVICE

17:00

PROPERTY OF U.S. POSTAL SERVICE

FOR OFFICIAL USE ONLY
VIOLATORS SUBJECT TO CRIMINAL

Chapter 4 **2006 Annual Performance Report and 2007 Annual Performance Plan**

Introduction

This chapter describes the Postal Service's goals, objectives, and performance targets, along with relevant indicators, measurement systems, and recent performance trends. Performance targets for 2007 and preliminary targets for 2008 are provided. Strategies to achieve these targets are described in detail in *The Strategic Transformation Plan 2006–2010*, which outlined the 5-year strategic plan, and *The Strategic Transformation Plan 2006–2010 Annual Progress Report*.

The Government Performance and Results Act of 1993 requires that all federal agencies:

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

A. Strategic Goals and Objectives

The process by which the Postal Service accomplishes this is based on Malcolm Baldrige National Quality Award principles. Postal management establishes strategic goals and objectives after assessing stakeholder requirements. Specific objectives are adjusted based on organizational resources. Performance is tracked using reliable, verifiable measurement systems, which are themselves subject to ongoing review and refinement.

During the last 5 years, the Postal Service made significant progress against its strategic goals. It achieved record service performance and customer satisfaction, reduced costs by more than \$5 billion, and made great strides in safety and employee attitudes while meeting the financial requirements to support growth of the universal service network.

B. Strategies to Achieve Targets

The *Strategic Transformation Plan 2006–2010* published in September 2005 describes the Postal Service's strategic objectives and goals in detail. A summary of the strategic objectives and goals is outlined below.

1. Generate Revenue

The Postal Service is a self-sufficient agency deriving its revenues almost entirely from postage and fees paid by mailers. Prices are set to provide enough revenue to cover costs. Postal operations are not supported by tax dollars. Revenue must cover the costs of operations, including the growth of the universal delivery network, investments in future improvements, and other public service requirements. Postal products and services are

provided in competitive environments, and face different market and customer demands.

A. MAIN REVENUE GENERATION STRATEGIES

- Create customer value with products and services.
- Customize and simplify pricing.
- Enhance access and ease of use.
- Aggressive sales, promotion, and outreach.

2. Reduce Costs

Along with providing reliable service, maintaining affordability is the most important measure of success for postal customers. Postal prices are driven by operating costs and reasonable postage rates are the ultimate result of sound fiscal management. The Postal Service's cost savings achievements and the past legislated changes in the Postal Service's contribution to the Civil Service Retirement System have helped hold postage rates at or near the rate of inflation.

A. MAIN COST REDUCTION STRATEGIES

- Use automation to remove processing costs.
- Expand standardization to capture savings.
- Rationalize facility networks and create flexibility in transportation.
- Partner with commercial mailers to reduce the total cost of mail.
- Streamline internal business processes.

3. Improve Service

The Postal Service has improved service even as it has reduced operational costs. Compared with 2002 when the strategic transformation process began, customers now have more consistent and reliable mail service, easier access to products and information, and many more options for using the mail to maintain business and personal relationships.

A. MAIN SERVICE IMPROVEMENT STRATEGIES

- Provide timely, reliable end-to-end service.
- Improve customer service across all contact points.
- Continue to implement corporate responsibility initiatives.
- Maintain security and trust.

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4. Achieve Results with a Customer-Focused, Performance-Based Culture

Postal employees are the organization's most important asset and the Postal Service depends upon the quality and commitment of its employees to achieve objectives. The Postal Service has improved safety and the workplace environment, while better focusing employee development and compensation programs on achieving objectives. The Postal Service will build on this foundation and continue the transition from an internally-focused culture to one focused on postal customers and business results.

A. MAIN WORKFORCE STRATEGIES

- Engage employees.
- Develop and manage talent.
- Manage workforce complement.
- Establish and maintain market-based compensation.

C. Strategic Performance Targets

The Postal Service's targets for 2007 and its preliminary targets for 2008 are shown below. Recent performance trends are described in subsequent sections.

Table 4-1 Performance Targets

Goal	Indicator and Measurement System	2007 Target	2008 Target (Preliminary)
Generate Revenue	Total National Revenue Financial Reporting System	\$75,273 (in millions)	On Plan
Reduce Costs	Productivity Total Factor Productivity	0.8	increase to EOY
Improve Service	Overnight First-Class Mail On-Time (External First-Class Measurement System)	95	95
	2-Day First-Class Mail On-Time (External First-Class Measurement System)	92	92
	3-Day First-Class Mail On-Time (External First-Class Measurement System)	90	90
Achieve Results with a Customer-Focused, Results-Based Culture	Illness and Injury rate Health Administration Report	5.5	0.1 Better than End of Year 2007
	Employee Attitude Index Voice of the Employee Survey	63.6	0.2 Better than End of Year 2007

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D. Performance Indicators and Measurement Systems

The Postal Service has worked to develop and maintain valid performance indicators and reliable, verifiable measurement systems for each strategic goal.

1. Measuring Revenue Generation

Total revenue to plan is used as a summary of revenue generation results. Chapter 3 of the comprehensive statement discusses the financial highlights. More detail is available in the audited *2006 Annual Report* available at *usps.com*. The Postal Service's financial systems are subject to thorough external review, including data developed and made public during rate case review.

2. Measuring Cost Reduction

These audited financial systems are also the source for tracking cost reduction. The Postal Service has a very disciplined process and managers are accountable for meeting very demanding operating expense targets as part of the Pay for Performance program. The Postal Service uses total factor productivity (TFP) to evaluate the effectiveness of its integrated cost management strategies.

TFP is a measure of efficiency that calculates changes in the relationship between outputs and the inputs used to produce them. The main outputs are mail volumes delivered and services provided to an expanding delivery network. TFP assigns weights to different types of mail volume to account for variations in the amount of work it takes to handle a piece of mail. Mail varies by size, shape, weight, preparation levels, and transportation mode. Inputs include all labor, capital, and materials used. Capital includes buildings, land, and equipment. Materials include utilities, supplies, services, and all other non-personnel items.

TFP is similar to the multifactor productivity methodology used by the Bureau of Labor Statistics to calculate national and industry-level productivity. Each component of TFP is very intricate. Developing a measure for each component requires constructing and aggregating a series of indexes. Data are derived from a number of audited postal information systems, the Cost and Revenue Analysis (CRA) Report, and General Ledger. Analysis is validated by a leading independent firm of productivity experts.

TFP results are expressed as a percent change from the prior year. There can be a lag between the impact of certain strategies, such as capital investment, and the actual results being achieved for a given year. Consequently, TFP results are most appropriately viewed as a long-term trend rather than concentrating on a specific year. Postal Service TFP has increased for 7 consecutive years.

3. Measuring Service Improvement

The Postal Service has developed reliable and verifiable service performance indicators and measurement systems that have helped improve performance and customer satisfaction. Given the scale of postal operations — more than 213 billion pieces of mail to more than 146 million delivery points — the development of modern measurement systems is not a trivial undertaking. The *Strategic Transformation Plan 2006–2010*

established the goal of improving in the development of delivery service performance standards, measurements, and reporting systems. Existing indicators and measurement systems will be updated consistent with the evolving characteristics of new products, services, processes, and operations.

Postal automation, using advanced barcode technology, is the foundation upon which future service measurement systems will be based. Until recently, the technology had not been available to efficiently track billions of low-cost items, such as letters. The strategies outlined in the *Strategic Transformation Plan 2006–2010* will improve the visibility and the ability to track containers and individual mailpieces throughout the system, and will enable the development of new and improved service performance metrics and measurement systems.

For 2007, existing systems will be used to measure mail delivery performance for First-Class Mail, Express Mail, and Priority Mail.

A. FIRST-CLASS MAIL

First-Class Mail has delivery performance standards for overnight, 2- and 3-day service, depending primarily on distance. It is generally delivered 6 days a week, excluding federal holidays. Results reported for GRPA do not include any exclusionary periods. The External First-Class (EXFC) Mail measurement system, implemented in 1990, was a significant improvement to the purely internal systems it replaced. EXFC focuses on single-piece First-Class Mail. It is an end-to-end measurement from the time that mail enters the mail stream until it is delivered to a household, small business, or Post Office box. EXFC performance is measured by an independent firm under contract to the Postal Service.

EXFC is an external measurement system of collection box to mailbox delivery performance. EXFC continuously tests a panel of 463 ZIP Code areas selected on the basis of geographic and volume density from which 90% of First-Class volume originates and 80% destinates. EXFC is not a system-wide measurement of all First-Class Mail performance. The current network represents approximately 80% of all destinating stamped and metered First-Class Mail. EXFC measures service performance from a customer perspective (matches typical customer experience) and produces accurate, independent, externally-generated results. Official results are presented to the Postal Service 10 days after the end of each postal quarter. Performance is tracked at the national, area, and performance cluster level. Postal managers monitor interim results and program information on a daily basis. The contractor conducts special analyses to verify that the information is accurate and fairly represents the actual service provided by employees to postal customers. As of 2006, international mail is now also measured using the EXFC process.

The internal Origin and Destination Information System (ODIS) is a performance diagnostic tool and differs from EXFC in both purpose and methodology. ODIS-RPW (Revenue, Pieces, and Weight) is a continuous probability sample of all mail exiting the postal system, and a continuous probability sample of registered, insured, Collect on Delivery (COD) and Certificates of Mailing (COM) mailpieces entering the postal system.

Remittance mail is an important segment of First-Class Mail not separately measured by EXFC. However, the remittance processing industry has developed the Phoenix-Hecht Postal Survey, which is conducted twice

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a year by an independent firm for industry subscribers. The survey is an objective, carefully monitored, statistically valid measurement. This service measures transit time in hours from originating offices to destination lockbox offices. The results of this survey are used by both mailers and the Postal Service to improve remittance mail service. Since 2001, this survey has shown consistent improvement in service performance. The Postal Service and the industry conducted research and worked on ways to further serve this segment. The results of the Phoenix-Hecht Survey also tend to move in the same direction as EXFC and ODIS, further reinforcing the validity of service performance trends.

Some mail, including First-Class Mail, Express Mail, and Priority Mail, is dependent upon consistent air transportation. The Postal Service entered into an agreement with UPS, similar to its existing agreement with FedEx, to provide more consistent air transportation. The number of commercial air carriers was reduced as performance measurement systems identified nonperformers.

Internally, the Postal Service is adding new systems to detect and correct service problems such as “double feeds” — letters going through automation equipment transport systems that are not properly separated — and mail that is automatically identified as out-of-sequence.

B. EXPRESS MAIL

Express Mail is a premium 7-day-a-week service, with delivery on Sundays and holidays. Overnight delivery is guaranteed to most domestic locations. In cases where a destination is not on the Postal Service overnight transportation network, second-day delivery is guaranteed. On-time performance is closely tracked. Scan data provides a reliable performance measurement system that verifies that the mail is delivered on the date committed. It is enabled by unique mailpiece identifiers and processes to scan mail at acceptance and delivery. A validation system is used to determine if the scanning procedures and processes are valid and accurate. As a premium service, scanning is built into the price of Express Mail.

For most International Express Mail, the Postal Service is limited to the measurement of the domestic portions of the service due. For inbound service, transit time is measured from the point a mailpiece leaves U.S. Customs (which “starts the clock”) to postal delivery to the U.S. address. Outbound service is measured from the originating Post Office to the postal plant serving as the international gateway.

In 2005 several postal administrations entered into an alliance to improve International Express Mail performance and reporting. As a result, the Postal Service now has an agreement with the posts of Australia, China, Hong Kong, Japan, and South Korea to give customers a money-back guarantee for day-certain Express Mail service between partner countries. The Postal Service continues to work with other posts and organizations to improve International Express Mail service and measurement.

Global Express Guaranteed is a day-certain premium express product to 190 countries. It is operated in partnership with FedEx, which provides for transportation and delivery to the foreign address. On-time performance measurement is based on scans from initial acceptance through delivery.

C. PRIORITY MAIL

Priority Mail is a nonguaranteed service with a 2- to 3-day service standard to most locations, depending on distance. Delivery service is provided 6 days a week, and excludes federal holidays. This year the Postal Service replaced the Priority End-to-End (PETE) measurement system. The new system, the Delivery Confirmation Priority Mail Retail (DCPM-R) service performance, expands coverage to 23 million retail Priority Mail pieces. Results are based on Delivery Confirmation, a service that must be requested and paid for by the customer. By scanning the piece at acceptance and at delivery, the Postal Service is able to measure service performance from entry to delivery. There are processes in place to ensure that the data are accurate at specific points in the system. Information about the elapsed delivery time is available to the customer at *usps.com*.

In 2007 Delivery Confirmation will also be provided to commercial mailers who submit an electronic manifest with their bulk Priority Mail pieces. The manifest is scanned at acceptance and entry into the mail system and with the scan at delivery, customers know when their mail was delivered. The Postal Service and the mailing industry are working on technical issues related to accuracy and timeliness of the manifest. However, as these issues are resolved, Priority Mail from commercial customers will be included in the service measurement system in 2007.

D. REPORTING SYSTEMS

Postal managers and commercial customers have other tools to assess delivery service performance. The Mail Condition Reporting System (MCRS) is an internal diagnostic tool that provides data to analyze service performance, focusing on mail processing centers. The Customer Service and Delivery Reporting System (CSDRS) provides daily reports on conditions within delivery units. These two systems include the categories “mail on hand” (not delayed) and “delayed mail”, by facility on a daily basis. This data is available for review at the area and the national levels. Some major mail service providers have developed proprietary performance measurement systems for their customers using these postal data systems.

The ADVANCE Notification and Tracking System was introduced in 1995 to track the delivery process for qualified Standard Mail and Periodicals mail. Delivery performance is tracked by approximately 7,000 delivery units serving over 11,000 ZIP Codes. Using the process, district and area offices can track the mailing to ensure receipt and delivery at the local unit and can work with mailers to identify problems.

CONFIRM was originally designed to provide commercial mailers raw scan data from a second mailer-applied barcode (PLANET code). It is now used as an internal diagnostic tool. A limited number of commercial customers also use the data to confirm their own analyses. Another tool used by the Postal Service and mailers is the Facility Access and Tracking (FAST) system, which tracks the arrival of commercial mail at postal processing facilities for entrance into the mailstream. The report analyzes mailers arriving late for scheduled acceptance, “no shows,” and those who arrive without appointments.

Customers may apply Delivery Confirmation or Signature Confirmation to obtain information about the delivery status of their packages. Parcel Post service standards vary by distance. Commercial customers using Parcel Select service have Delivery Confirmation included. The service standard

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for Parcel Select is next-day for packages entered at delivery units prior to 7:00 AM. The Postal Service delivers 98% of properly prepared, addressed, and entered Parcel Select pieces within the standard.

The Postal Service employs numerous other tools, such as color coding for Standard Mail and a 24-hour clock operating performance checklist. The end-to-end mail visibility processes in development will also help address factors that affect performance but are not currently incorporated in performance measures, such as accurate measures of when mailings are actually entered into the system by commercial mailers. The seamless acceptance initiatives outlined in the *Strategic Transformation Plan 2006–2010* will provide more complete information to mailers.

E. CUSTOMER SATISFACTION MEASUREMENTS

Service improvement extends beyond ontime delivery to the overall experience that customers have with the Postal Service. The primary measure of customer satisfaction is the Customer Satisfaction Measurement system (CSM). CSM is an independent assessment of both residential and business customer experiences with postal products, services, and service representatives. A total of 1.1 million residential and 400,000 business responses to the CSM survey are received each year. Residential response rates are 20%. Business response rates are higher 50%. That is consistent with industry standards of between 10 to 30% for customer satisfaction surveys. CSM data are used to assess customer satisfaction nationwide and to help area, district, and local managers determine where improvements would most benefit customers. Since 2002 customers have rated overall satisfaction with the Postal Service at 93% or better (percent rating the Postal Service as *excellent / very good / good*).

Elements of the CSM are verified by other measurements. For example, consumer and small businesses experience in Post Offices is complemented by a national Mystery Shopper program, conducted by a different outside contractor. The most recent results are available upon request from the Postal Services Consumer Advocate. The Corporate Customer Contact system, which annually handles more than 65 million customer inquiries, is also a diagnostic that helps identify, track, and resolve customer problems. Customers can access the Postal Service in person, through a 800-ASK-USPS, via e-mail, and through the Postal Service Web site, *usps.com*.

A program similar to the Mystery Shopper is in place for business customers to help assess their experience at business mail acceptance units. The Business Service Network (BSN) is available to selected business customers to resolve problems. Small business mailers address local issues through the Postal Customer Council (PCC) in their area, and larger mailers regularly work on issues through the Mailers' Technical Advisory Committee (MTAC), which meets quarterly.

Together, these processes represent one of the largest customer outreach programs in either the public or the private sector. A separate, independent national customer satisfaction survey, the American Customer Satisfaction Index, includes the Postal Service in its program. Overall, the Postal Service is the most improved of all measured services since the survey began in 1994. The most recent results are available at www.theacsi.org.

4. Achieve Results with a Customer-Focused, Performance-Based Culture

As one of the nation's largest employers, the Postal Service has a special responsibility to its workforce to promote a safe working environment. Safety is used as a strategic measure of the Postal Service's commitment to its employees.

The Postal Service's internal accident, injury, and illness information systems support the requirements for reporting established by the U.S. Occupational Safety and Health Administration (OSHA). The Illness and Injury Rate is based on the total number of illnesses and injuries multiplied by 200,000 workhours and divided by the number of hours worked by all employees. The 200,000 represents the number of hours that 100 employees working 40 hours a week would work in a year. It provides the standard base for calculating incidence rates.

Creating a customer-focused, results-based culture requires a consistent commitment to improving the workplace. Employee attitudes represent a summary of the effectiveness of a number of postal human capital management programs. Each postal quarter, one-fourth of the career employee population receives a survey at their work stations. Participation is voluntary and anonymous. Employees are given time on-the-clock to complete the surveys and seal them in postage-paid envelopes that are mailed to an independent contractor for analysis and quarterly reporting. Response rates average about 66%. Six questions focusing on individual recognition, work unit accountability, harassment and discrimination, and treatment by supervisors, have been identified as key indicators of performance and results. These questions are used to create an index which is tracked for organization and unit-level performance trends. In addition, the survey has recently been redesigned to obtain additional employee feedback.

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E. Performance Results

Performance trends since 2001 are shown below.

1. Generate Revenue

Table 4-2 Total Revenue to Plan Performance Trends (%)

	2001	2002	2003	2004	2005	2006
Actual to Plan	97.0	96.9	97.6	100.2	102.4	100.7

Source: Postal Service Finance

There were no changes to the goals, indicators, or measurement systems, and none are contemplated for 2007.

2. Reduce Costs

Efforts to improve service must be balanced with the need to reduce the growth of postal costs. Certain drivers of postal costs, such as the growth of the delivery network or the price of fuel, cannot be easily controlled. In order to provide service as efficiently as possible to keep postal prices as low as possible, the Postal Service has focused on increasing productivity.

Table 4-3 Improvement Trends in Total Factor Productivity: Annual % Change in TFP

	2001	2002	2003	2004	2005	2006
Total Factor Productivity	1.7	1.0	1.8	2.4	1.1	0.4

Source: Postal Service Financial Reporting and Analysis

There were no changes to the goals, indicators, or measurement systems in 2006 and none are contemplated for 2007.

This performance represents a cumulative improvement of more than 10% during a period in which the price of postal resources, such as labor and fuel, increased almost 20%. This productivity improvement has enabled the Postal Service to keep rate increases, on average, below the growth of the consumer price index. The Postal Service continues to refine additional performance indicators around operations quality, process standardization, and other activities below the overall TFP level.

3. Improve Service

Table 4-4 First-Class Mail Delivered Within Service Commitment Trends

	2001	2002	2003	2004	2005	2006
Overnight	94%	94%	95%	95%	95%	95%
2-Day	85%	85%	90%	91%	91%	91%
3-Day	81%	80%	88%	89%	87%	90%

Source: Postal Service Consumer Advocate's Office

Notes: Results are rounded for the full year for national public reporting. More detailed data, subject to seasonal exclusionary period to reflect expected inclement weather conditions and reduced airlift capacity (generally from late November to early February) are used internally. The Postal Service has been reducing the duration of the exclusionary period. Local service performance data may also be adjusted to reflect widespread natural disasters (e.g. Hurricane Katrina).

Before 2003, First-Class Mail 2- and 3-day performance was combined and reported as a single score. Since 2003, performance has been tracked separately to reflect different operational conditions. Prior year data has been adjusted for consistency. The format of this report reflects changes to eliminate discrepancies between different Postal Service documents caused by different reporting periods.

GPRA-level service reporting uses rounded data, while pay-for-performance data used internally is more detailed. Internal data also reflect continuing reductions in the exclusionary period, while GPRA data does not include any exclusions. Exclusionary periods reflected periods, originally from late November to early February, when restricted airlift capacity and weather conditions typically affected service performance.

There were no changes in the First-Class Mail goals, objectives, indicators, or measurement systems in 2006, and none are planned for 2007.

4. Achieve Results with a Customer-Focused, Performance-Based Culture

The Postal Service is a large organization, with most employees engaged in repetitive manual labor — lifting and moving mail — with many driving long distances, exposed to weather, dog bites, and other occupational hazards. The goal is to reduce accidents, injuries, and illnesses (downward trend is the desired result).

Table 4-5 OSHA Safety Performance Trends (Illness and Injury Rate)

	2001	2002	2003	2004	2005	2006
Injuries and Illnesses Rate	8.8	8.0	7.3	6.6	5.7	5.6

Source: Postal Service Safety and Environmental Performance Management

Note: Rates are yearly averages. Data has been adjusted to comply with OSHA requirements to show accidents in the year they occurred rather than the year reported. In addition data are changed to reflect updated medical information and improvements in record-keeping.

There were no changes to the goals, indicators, or measurement systems in 2006 and none are contemplated for 2007.

Table 4-6 Voice of the Employee Survey Performance Trend

	2001	2002	2003	2004	2005	2006
VOE Survey Index	58.1	58.8	61.1	62.1	63.7	63.4

Source: Postal Service Human Resources

There were no changes to the goals, indicators, or measurement systems in 2006 and none are contemplated for 2007.

Chapter 4 **2006 Annual Performance Report and 2007 Annual Performance Plan**

Summary

The Postal Service had considerable success generating revenue to support the growth of the universal delivery network the same time it has reduced costs to maintain affordable prices. Service performance and customer satisfaction have improved steadily. Safety and employee attitudes, as reflected in the Employee Opinion Survey, have also improved over time. The *Strategic Transformation Plan 2006–2010* describes how the Postal Service intends to build on these successes, and as implementation of the Postal Accountability and Enhancement Act proceeds, the goals, indicators, and measurement systems will be adapted and new ones will be developed, to meet the new requirements.

Transformation helped deliver solid results across the board and the Postal Accountability and Enhancement Act, signed into law by President Bush in December 2006, will not alter the Postal Service's mission or major strategies, but enable the organization to continue the identification of transformation efforts and cost-cutting measures.

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